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AN INTRODUCTION

TO

POLITICAL ECONOMY

BY

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PREFACE.

It has frequently been doubted whether the present is the best time for the preparation of a text-book of political economy, and it has been said that the attitude of mind which should characterize the political economist under existing circumstances is one of "pause and retrospection." There is active dispute concerning fundamental conceptions, and when one listens to the controversies now going on the impression is apt to grow on one that in political economy nothing is settled. Topics as important as wages, rent, and profits are now under active discussion by scholars who hold widely divergent views. It is true that in reality many things are tolerably well settled in political economy, and that progress in the science was never so rapid as now; but precisely this hopeful outlook for the future renders the preparation of a text-book at present difficult.

The author's experience as a teacher and a writer has convinced him that brief economic manuals have in the past done immense harm. They have conveyed little positive knowledge, but they have provided their readers with a lot of catch-words and simple "rules of thumb" for the solution of the various socio-economic problems which arise in our complex modern industrial civilization. They have thus turned the minds of a multitude of half-educated persons

away from the careful observation of the phenomena of actual life, and have shut their eyes to truths easy enough of perception.

Reflections like the foregoing could not fail to occur to the author when he was requested to prepare a brief text-book of political economy, which, while designed primarily for the Chautauqua Literary and Scientific Circle, should at the same time be suitable for use in schools and colleges and for general reading. It seemed to him very clear what ought to be done. Many things must be passed over and left for further discussion in monographs by scholars before they are included in an elementary text-book. Nevertheless, a general survey of the field is important. If special questions are studied without the previous, or, at any rate, subsequent, perusal of an outline of the entire science, the sense of unity is lost. A framework is needed in order that special topics, like taxation, labor organizations, socialism, may be conveniently placed within it.

The intention of the author has, then, been to write a work descriptive rather than logical, and the ordinary distribution of space in text-books has been abandoned. More than one third of the book has been occupied with a description of the growth and characteristics of industrial society and an exposition of the nature of political economy. Many a person has read through a text-book of political economy without knowing what political economy really means. It has been the aim of the author to make, at least, the true significance of political economy apparent.

The character of the work and the strictly limited space have led the author reluctantly to omit many topics. It has been thought better to write something suggestive, and in keeping with the spirit of the book, about a comparatively few topics than to attempt to say a word in didactic style about every topic which comes under the general subject of political economy.

The book is called an *Introduction to Political Economy.* It is hoped that this work will interest its readers, will excite curiosity, will open their minds, and will thus lead them to continue their economic studies, for which suggestions are given in one of the parts into which the work is divided. The impression which it is desired that this book should leave is something like this: "Political economy is an interesting and most important branch of human knowledge. I now see what it is all about, and having surveyed the field I propose to take up special questions, like taxation and the labor movement, and study them carefully. I do not feel so much that I really know a great deal about political economy as that I am now in a position to learn something."

The author's indebtedness to various authors is sufficiently acknowledged in references throughout the book. It may be, perhaps, proper to say that he is especially indebted to a treatise of Professor Schönberg, several times mentioned, in the preparation of that part of the present work which deals with the development and characteristics of economic society.

At the close of the chapters references are frequently given to works which will still further elucidate the topics therein treated.

The author has felt so keenly the responsibility which rested upon him in preparing a text-book for the truly immense Chautauqua public that he has asked Professor Franklin H. Giddings, of Bryn Mawr College, to read his manuscript and proofs, and Professor J. B. Clark, of Smith College, Professor Woodrow Wilson, of Wesleyan University, and Professor Amos G. Warner, of the University of Nebraska, to read the proofs. For the suggestions and encouragement received from these gentlemen he is deeply indebted, and he wishes here to express his thanks. The author is also indebted to Mr. John R. Commons, one of the most gifted members of his graduate class, for assistance of many kinds given during the preparation of the present work.

All persons whose interest is specially awakened, leaders of circles and teachers who use the book, unless they have already enjoyed thorough instruction in political economy, will find it to their advantage to take the correspondence work in political economy in the Chautauqua College of Liberal Arts, about which the registrar, Professor Frederick Starr, of New Haven, Conn., is always ready to give information.

RICHARD T. ELY.

JOHNS HOPKINS UNIVERSITY, BALTIMORE, *February*, 1889.

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PART I.

THE GROWTH AND CHARACTERISTICS OF INDUSTRIAL SOCIETY, AND THE NATURE OF POLITICAL ECONOMY.

L. Walker

CHAPTER I.

PRELIMINARY REMARKS ON POLITICAL ECONOMY AND SOCIOLOGY.

Some writers have been inclined to discard formal definitions of sciences as unprofitable. An entire scientific treatise is nothing but an expanded definition. A text-book of physiology is nothing but an answer to the question, "What is physiology?" The present work is a similar endeavor to answer the question, What is political economy? While conscious of the imperfections of definitions, particularly when placed at the beginning of a treatise, the student finds it an advantage to have described to him, in advance, in rough outlines, at least, the field which he is about to investigate more minutely. We will attempt to frame some kind of an idea of political economy, and of that larger branch of knowledge of which it is a part, at the outset of our studies, and will then later return to a more detailed description of the nature of political economy.

Political Economy a Part of Sociology.—Political economy is a social science, but it is not social science in its broadest sense. Another name has been reserved for that larger branch of knowledge, and that is sociology. Political economy is a part of sociology. Sociology deals with all the phenomena of society; that is to say, with all that concerns men living together and having certain necessary, agreeable, and desirable relations with one another. It does not deal with individuals as such. It does not tell us something about John and Henry and Robert and George, Susan and Jane and Sarah and Mary as separated, isolated personalities, but it treats them and other human beings as members of an organization, and that organization is called society.

The fact of the necessary relationship of human beings to one another is brought out in a thousand ways in the language of every-day conversation. When we say "human beings" we separate men from other beings, and imply a common tie in humanity. This idea is brought out still more clearly when we speak of others as our fellows. Without dwelling upon words which imply this intuitive feeling in various grades of intensity, it may be remarked that Christianity offers us our highest conception of a society which embraces all men, and in that conception sets us a goal toward which we must ever move. The fatherhood of God and the brotherhood of man are the expressions of this relationship. Human progress can never pass that goal, for it satisfies the highest aspirations of which we are capable.

Society an Organism.—As a first step in the study of sociology, and in that branch of sociology called political economy, it must be clearly understood that society is an organism; that is to say, it is composed of interdependent parts performing functions essential to the life of the whole. Society expresses a will in various ways, and particularly, but not solely, through government, and it finds methods for the execution of its purposes. Society punishes those who offend it and violate its well-known desires, and this punishment assumes almost infinitely varying degrees of severity, including even torture, disgrace, and death. At the same time society differs from many other organisms in the fact that its separate parts are themselves organisms, and that each of these parts has a purpose and a destiny of its own. Society is composed of individuals, but individuals find their true life in society.

Sociology Defined.—Sociology is the science which deals with society. It may be more proper to say the group of sciences, as sociology, at present, is only developed in parts, and these parts have as yet scarcely been connected into one whole. Sociology is identical with social science properly understood, but the term social science has unfortunately been used in a narrower and less correct sense. Social science has been

used as equivalent to that branch of knowledge which is concerned with the proper treatment of the dependent, delinquent, and criminal classes. What propriety there can be in restricting social science, or the science of society, to a consideration of the lowest and most unfortunate classes of society is not apparent.

Sociology deals with social phenomena, and so does political economy; but probably all readers of this work instinctively feel that the two are not identical. When we open a treatise on sociology we are not surprised to see an exhaustive treatment of the social phenomena of religion, of intemperance, of marriage, and of divorce, but it can hardly be necessary to say that in themselves these things do not belong to political economy. The political economist may very properly have more or less to say about these topics, but he does not get at them directly, but only indirectly, as bearing on other phenomena or as themselves affected by other social forces. The entire life of man in society is truly one, but it is so great, so complex in all its almost infinite variety of manifestations, that it seems necessary to separate it into parts by more or less artificial lines; not that any part has an independent existence, for each part affects vitally every other part, but that in this manner we accommodate things better to the limited powers of man's intellect.

The Departments of Social Life.—Dividing the life of society or of a people organized as a politically independent society into parts, we may call these parts territories of social life, or departments of social life, or we may use the expression social life-spheres. Eight great departments of social life have been enumerated; namely, first, language; second, art; third, science and education; fourth, the family life; fifth, social life in the narrower sense, that is, the intercourse of friends and associates as seen in entertainments, parties, and meetings of various kinds, the interchange of ideas and courtesies; sixth, religious life; seventh, political life; eighth, economic life. The economic life means briefly that part of man's life which is concerned with what is commonly

called "getting a living." Now it is with this eighth great fundamental life territory of a people that political economy has to do, and we must examine its character.

Relation of Economic to other Life-Spheres.—But the reader must first be warned that the scope of our science is neither small nor insignificant because we have excluded so much, and more especially because we have excluded the higher life-spheres of society. Our department touches all others, modifies and conditions all others, ought to subserve all others, and in studying it we are examining those things which are fundamental, those things which serve as an indispensable basis for the highest flights of the soul in art, music, and in religion. There is scarcely a phenomenon of society, perhaps none at all, which does not come sooner or later within the range of the economist's discussion, although he arrives at all from his own peculiar starting-point.

The Present Condition of Sociology.—Attention must also be called to the fact that we are about to consider one of the most fruitful fields of sociological inquiry. Sociology as a whole is so vast a subject that comparatively little progress, it must be confessed, has been made in its prosecution. This will undoubtedly be different in the future, but the condition of sociology is rather disheartening at present. Only few men have done valuable work as sociologists. The French philosopher, Auguste Comte, who lived during the first half of this century, is often called the father of sociology, and undoubtedly in his *Positive Philosophy* and other works he has made valuable contributions to sociological knowledge, and still more valuable contributions to sociological method. His greatest service was, however, the impulse which he gave to sociological studies, and this impulse is still felt. The disciples of Auguste Comte are called Positivists, and are found chiefly in France and England, but his influence, transcending the sphere of his own followers, has touched all modern students of sociology.

Several German writers have attempted work in the broad field of sociology, of whom, perhaps, Professor Albert

Schäffle is most distinguished. Schäffle is the author of a great work, in four volumes, called *The Structure and Life of the Social Body.* It is erudite, but suggestive rather than exhaustive.

Herbert Spencer is the best known English sociologist, and in his various works, *Study of Sociology*, *Social Statics*, *Principles of Biology*, and others, he has covered a wide field, but for the most part superficially, and especially superficial are all those parts which treat of economic life and institutions. While it is not too much to call some of his speculations crude, in their dogmatism and blindness to the facts of social life, it must be admitted that he has rendered distinguished service to the study of sociology in the work which he has mapped out for others to do, and in the very considerable interest in sociological inquiries which he has awakened both in England and America.

One part of sociology, that which deals with the growth of society, has been ably treated by an American, Professor Lester F. Ward, in his *Dynamic Sociology*, a work in two stout volumes.

This may not exhaust the list of sociologists, but these four names include the principal sociologists, and in reading their works, while making full and frank acknowledgment of their erudition, patient research, and ability, it must be confessed that the impression left by all is that of work unfinished, of work, in fact, scarcely more than begun, and of work of very uneven excellence. They are men who are feeling their way, and who, like other explorers, often stumble and fall. Suggestion and impulse describe the debt we owe to sociologists.

Political Economy the Best Introduction to Sociology.—Political economy, on the other hand, is a science which is making rapid progress at the present time, and men young and old, but principally young men, in all civilized lands, particularly in Italy, Germany, England, and the United States, are devoting themselves to its advancement with ardor justified by results already achieved. While it is

recognized that political economy has not long left behind the period of infancy, that a great deal of what passes under that name is crude and imperfect, it is safe to say that it is to-day in a most hopeful condition, and that at the present time political economy is the best introduction to the various social sciences embraced under the general name sociology.

Read F. H. Giddings's *Sociology and Political Economy.*

CHAPTER II.

ISOLATED AND SOCIAL ECONOMIC LIFE.

The Economic Life.—It is not difficult to understand what is meant by economic life, as the mention of a few elementary facts explains it. Man has wants which must be satisfied in order that he may live at all, and other wants which must be satisfied in order that he may live worthily, and still other wants the gratification of which ministers to vanity or other evil traits of human character. These wants of man are of the most diverse kinds. Some can be satisfied by tangible, material things, others only with immaterial or non-corporeal goods. Man is constantly striving to satisfy his wants in order to promote his welfare or to increase his happiness in some way. In so far as he is engaged in efforts to secure material goods for the satisfaction of his wants, we may speak of his activity as economic, and the regular succession of these efforts we may call his economic life, just as we may call efforts and experiences of another sort his religious life. "In so far as the activity of man is directed to the acquisition of material things for the satisfaction of human wants it is called economic, and, . . . like any other human activity, it is conditioned in its manifestations by the nature of man and by his historical development." *

It is to be noticed that this activity is of two kinds; namely, first, in the acquisition, second in the employment of material means.

Isolated Economic Life.—The economic activity of man may be isolated or it may be social. It is exclusively or even chiefly the first only in the earliest stages of human develop-

* Schönberg, in his *Handbuch der Politischen Oekonomie*, Bd. i, S. 4, 2te Auflage.

ment. Possibly it is never strictly isolated, because neither in history nor in accounts of the experiences of contemporary travelers and explorers do we find human beings living solely in and for themselves. The beasts of the field are not altogether isolated in their efforts to obtain food, nor in their consumption of it, although they differ considerably among themselves in this respect. The lowest of the human race resemble most closely beasts in the individualism of their economic life.

Homer has described the economic isolation of barbarians in these lines, which refer to the Cyclops:

> "No laws have they, they hold
> No councils. On the mountain heights they dwell
> In vaulted caves, where each one rules his wives
> And children as he pleases; none give heed
> To what the others do."*

It has been said that the wild men of Australia never cooperate with one another in their economic efforts, and the individualism of the blacks of "the heart of Africa" has been described by Professor Drummond, in his work, *Tropical Africa*, to be such that in some districts three natives cannot be sent with a message, for in that case two of them would combine and sell the third before they return. Sir John Lubbock uses these words of savages in general: "The savage is always suspicious, always in danger, always on the watch. He can depend on no one, and no one can depend on him. He expects nothing from his neighbor, and does unto others as he thinks they would do unto him. Thus his life is one prolonged scene of selfishness and fear." †

While we do not find individuals living a strictly isolated economic life, we do discover families or households organized as isolated economic units, and the family in one shape or another is probably the first social unit. No opinion is here expressed as to the particular form of family which first

* *The Odyssey*, Bk. ix, 136–140, Bryant's translation.

† *Prehistoric Times*, chapter xvi.

arose. It is simply meant to state it as probable that any life of man preceding the existence of some institution which may be called the family could not have been social; that where we find society, there we find the family as a unit, though, of course, larger composite units, as tribes, etc., may exist above the single family. We find in history, and we discover in the records of travelers, an economic activity of the family which we may call relatively isolated. It begins and ends in itself. Products are gathered from nature, and these are used directly, or after their form has been changed, to satisfy the wants of the various members of this economic unit. But this is the case only in early times or among people in an early stage of development. Probably even in this relatively isolated economic life, economic goods were exchanged occasionally by families, and thus a social economic life was begun. Nevertheless, the progress was slow, and a condition of relative isolation lasted for many centuries and has continued on a large part of the globe up to the present day.

Social Economic Life.—Modern civilization has, however, produced rapid changes, and it may be said that the economic activity of civilized man is, to-day, chiefly social. The greater part of what is produced in our industrial centers is not for the consumption of the producer, but is destined to satisfy the wants of others; while the wants of the producer are satisfied by what others give in exchange for his products. If the reader goes to Gloversville, in New York State, he will find people engaged solely in the production of gloves who seldom, and perhaps never, use a glove of their own making; if he goes to Westfield, Massachusetts, he will find men manufacturing horsewhips who never have occasion to use a whip they have made; if he goes farther east, to Haverhill, Lynn, Spencer, Natick, Marlboro, Brockton, or Worcester, in the same State, he will see almost the entire labor of thousands of human beings, young and old, men and women, expended in the marvelously rapid production of boots and shoes—and not merely that, but in

each place chiefly in the production of one kind of foot-wear, as women's and misses' fine shoes in Lynn and Haverhill, men's medium and fine shoes in Brockton, heavy boots in Spencer, brogans and men's heavy coarse shoes in Natick, and heavy boots and shoes of coarse grades in Marlboro—yet he will doubtless find, on inquiry, that a considerable portion of these working-men and working-women, and of these capitalists with whom they join their forces, have never worn a boot or shoe on which they have labored. The same thing holds true, though to less extent, in agriculture, and cotton-planters in the South often obtain nearly every thing which they use in exchange for cotton; wheat-growers in the North-west frequently procure most of the economic goods consumed by their families by means of purchase, and it is probable that in a near future grape-growers along the shore of Lake Erie, in Chautauqua County, New York, will procure nearly all the commodities which they use in exchange for grapes. There is, in fact, as we shall see in the progress of our studies more clearly, a unity in the economic life of a civilized people, but not as yet a unity in the economic life of humanity. We may thus speak of the economic life of the American people, of the German people, of the French people. The economic life of a politically organized independent people is often called a *national economy;* as the national economy of the Italians. We cannot as yet speak of the economic life of the world as a unity, or as any thing other than the sum of several unities, although economic interrelations among various nations are rapidly extending. These interrelations we may call *economic internationalism*, and it is possible that this will grow until we have a real world economy.

Productive Elements Often Overlooked.—It is necessary at this point to call attention to some important facts which are frequently overlooked. A large part of production even now is household production, as it may be called, and is not designed for the market-place, which indeed takes no note of it. Every well-regulated household

is an establishment where valuable things or quantities of utility are produced. Food is prepared for use, and prepared food is worth far more than unprepared, as we discover when we purchase it at a boarding-house, restaurant, or hotel. Often the prepared food sells for more than twice the cost of the unprepared food. But other utilities are produced in the household. Clothing is prepared and repaired, comfortable shelter is afforded, and strength of body and mind of the chief productive factor, the human being, is nourished. It has been claimed that the labor of at least half of the women of a country "is expended in producing material good things for the use of the producers."* Now it is a fact that more than half of the human race in civilized nations is composed of women, and if it is admitted that women labor as long and as severely as men it follows that a fourth of the labor of men and women combined is destined for the household and not for the market. But this is only a part of the annual income of the country of which no account is taken in ordinary money-estimates of annual income. Three fourths of the population of the United States is rural, and in the country a vast amount of material good things produced is destined for the household, and is rarely financially estimated. Vegetables, small fruits—cultivated and wild—butter, eggs, meat, fish caught in public waters, and game may be mentioned. Even wild nuts gathered are not altogether insignificant. Large as is this aggregate income neglected in estimates of annual production, it is by no means all. Property yields an income by use. My own house when occupied by me as truly produces a part of my income as when I rent it to some one else, for in either case I receive simply a quantity of utility. Horses, carriages, wagons, furniture, books, works of art, and the like, all annually produce quantities of utility, and these often have a large market value when offered for sale. Yet these utilities, when produced by goods owned by those who enjoy them, largely escape valuation. All this will show

* See Edwin Cannan's *Elementary Political Economy*, Part ii, § 8.

how miserably inadequate and even absurd are current estimates of average per capita production of wealth, as that the average wealth daily produced in the United States is only forty cents, or fifty cents, per capita, as the case may be.

Misleading Comparisons between the Past and the Present.—Another important fact to be noticed in this connection is the misleading nature of ordinary comparisons between the wealth annually produced at the present time and the wealth annually produced at an early day, say fifty years ago. While household production is now large, it undoubtedly has relatively diminished in importance. Production of things which are bought and sold in the market-place, and are consequently readily estimated in money, is constantly gaining in importance on household production of material good things. Hence annual production of material good things, or, broadly speaking, of economic goods which we estimate in money, increases more rapidly than real annual production; and there is, consequently, a tendency always to exaggerate progress, and, indeed, to count as progress some things which are retrogression. Should boarding-house and hotel life totally displace private housekeeping it would increase the apparent annual production of wealth.

Economic Life Defined.—Summing up what has been said, we may define the economic life of a people as its regular systematic activity for the acquisition and employment of material goods for the satisfaction of its wants. We may in a similar manner speak of the economic activity of any person—natural or artificial; as of a merchant, a farmer, a manufacturer, or a city, a township, a county, a State, a railway company, a bank, or a manufacturing corporation. We also use the word economy for economic life, as the economy of a family or of a nation.

The economic life of a people embraces the economic activities of all its individual members and of all its political units for the acquisition and employment of material goods, not merely for the satisfaction of individual wants, but for

the satisfaction of wants of schools and churches and governments, local and general.*

The Economist not Confined to the Material Life.—But, again, it is necessary to remark that we are not concerned merely with the material life of men in its narrow sense, for there can scarcely be a phase of the life of society which does not come within the province of the economist. But other phases of social life than the material are considered, rather indirectly than directly, as influencing the production of material goods or influenced thereby. The economist and the physician, for example, both discuss the sanitary condition of cities, and both propose measures to lessen the awful mortality among the children of the urban poor, but they come to the consideration of this same topic by very different routes. The physician takes up directly the health of the people, while the economist proceeds from a consideration of labor as one of the factors of production, and from the welfare of the laboring population. The economist finds one factor in production in an unsatisfactory or diseased condition, and searches for causes and proposes remedies. Likewise the educator and the economist both discuss industrial training, but each from his own peculiar stand-point.

* Schönberg is followed closely here.

CHAPTER III.

CERTAIN SPECIAL AND ELEMENTARY CHARACTERISTICS OF THE ECONOMIC LIFE OF A PEOPLE.

1. **The Economic Life not for Self.**—It is characteristic of the economic life of the modern man that it is not for self but for others. As has already been shown, goods are produced not for use but for exchange. It follows as a direct consequence of this that the division of society into economic classes with the wide-extended division of labor is one of the fundamental facts of modern economic life. One class produces one thing and another class a second thing, and so on indefinitely, and as the variety of commodities is great the number of economic or industrial classes must be large.

2. **Dependence of Man upon Man.**—The dependence of man upon his fellows is another fundamental fact. We speak of the increase in the number and importance of commercial and industrial relations, and we simply give expression to a movement which all can observe. But relationship in itself means dependence. There cannot be a relation of one; it must be a connection between two or more. *This economic dependence of man upon man thus increases with the progress of industrial civilization;* and in this single phrase lies locked up the explanation of many of the complicated and distressing phenomena of our times. "In his economic position, in the manner and in the success of his economic activity, in all that pertains to his income and to his resources, the individual becomes dependent upon the economic activity and acts of others."*

We may take as an example of this dependence of the modern man the manufacture of watches. If a man manu-

* Schönberg.

factures a whole watch he is dependent upon others. If the husbandman is shiftless or unskillful he will have no surplus grain to exchange for a watch. If the miner stop his work, the silver, gold, and other metals which enter into the watch will not be supplied. If the spinner and weaver cease their operations the watchmaker will suffer for clothing. If the shoemaker becomes indolent the watchmaker will be forced to go without covering for his feet, and so on indefinitely.

Let us now take another step. Suppose a man manufactures, not a whole watch, as formerly, but only a small part of one, as at present—let us say the three hundredth part of a watch. How greatly is his dependence upon others increased! He is now dependent upon hundreds of others engaged in the production of watches, as well as upon other industrial classes. It is not improbable that he may be dependent upon a million others for the necessaries of life, so wonderful is the socio-economic organism in which and through which we live. Every day brings fresh illustrations of the growing economic dependence of man upon his fellows, showing that production is becoming more and more social in its nature, and less and less individual. Railway strikes offer a good illustration of the interdependence of man in industrial society. The entire economic life of the nation, and the life even of other nations, is affected by acts of a comparatively few. A recognition of this economic dependence of man upon man has even led to consequences in legislation and in judicial decisions, limiting the industrial liberty of those engaged in particularly important occupations. Some have gone so far as to wish to make it a criminal offense for those engaged in transportation to manage "their own affairs in their own way," as the saying is; that is, freely to combine their forces and obtain for their labor the highest remuneration and most favorable conditions possible by peaceful means, including threats to quit work. It is replied that their occupation is not merely their own business but the business of the entire community, and that, therefore, they are under obligations to the general public. This is

true, but it should be remembered that obligation carries with it, as its correlative, duty. The general public can claim that employés of transportation companies are under obligations to it in case it recognizes that it owes a duty to these employés, and that duty must be to see that they are fairly paid for reasonable, not excessive, toil, and that the dangers to which they are exposed are reduced to a minimum. It has been held by a distinguished judge of New York that transportation companies, having received something from the general public, namely, franchises, are bound to render service to the public, and must so treat their own employés as to render them willing to work. This is far more reasonable because duties are in this case imposed in consideration of valuable things received.

The purpose of this illustration is to bring clearly to the mind of the reader some of the features of our industrial organism. It is plainly admitted that in special cases a man's work concerns not merely himself but the general public, and the difference between one sort of work and another is not so much of kind as of degree. When the Reading Road coal miners in Pennsylvania struck in January, 1888, it was found to affect in many different ways millions of their fellow-beings. Coal became dearer, and this was felt by consumers of coal all over the eastern part of the United States at least. But this higher price affected not merely fuel consumed for heating and cooking purposes, but also that used in productive establishments, and thus caused a cessation of labor in some of them, and threatened to throw out of work a whole army of men when the strike stopped in February of the same year. The blizzard and snow-storm in the spring of 1888, which interrupted communication by rail and telegraph on the Atlantic seaboard of the United States, demonstrated clearly the interdependence of sections of our country.

The old household economy was, relatively speaking, independent. What the household produced it enjoyed, and it might live in the midst of plenty while its neighbors were

suffering from all kinds of economic calamities. There may have been, and was, some kind of mutual dependence in an immediate neighborhood, but this rapidly grew less with increase of distance, and often almost disappeared at a distance of a hundred miles. Charles Egbert Craddock's book, *The Prophet of the Great Smoky Mountains*, describes well a rude kind of isolated economic independence. The people of this region, exchanging goods for goods and using no money, were troubled by no questions of the currency. Speaking of the settlement in the Big Smoky, Craddock says: "It was hard to say what might be bought at the store except powder and coffee, and sugar perhaps, if 'long-sweetenin'' might not suffice; for each of the half-dozen small farms was a type of the region, producing within its own confines all its necessities. Hand-looms could be glimpsed through open doors, and as yet the dry goods trade is unknown to the homespun-clad denizens of the settlement. Beeswax, feathers, honey, dried fruit, are bartered here, and a night's rest has never been lost for the perplexities of the currency question on the Big Smoky Mountains." Silver legislation and greenback decisions were alike indifferent to them. Yet how wretched this independence! how illusory! For the chief and most trying dependence of man is brought about by physical laws, and associated effort to rule nature may and does increase the real freedom of men, while it renders man more dependent than formerly upon his fellows. At the same time law and custom attempt to regulate and control this dependence of man upon man so as to mitigate its severities. When the dependence of one person upon another takes the form of mutual obligation between equals in strength, it is often not felt as a hardship at all. It was evidently meant by the Governor of the universe that man should seek union with his fellows. This is his salvation.

3. Political Independence the Basis of a National Economy.—A nation whose economic activity and institutions we designate by the term economic life or national

economy must always be a politically independent people, a number of men who are organically joined together in an independent political unity and who form in this unity an independent State.* This presupposes a common possession of a territory, independence of other peoples, and the existence of a highest State power which declares law and right, which prescribes the necessary legal rules for the execution of the desires of its individuals, including economic actions, and enforces obedience. This is substantially a definition of a State, but it may perhaps be better formulated in these words: The State is the union of a stationary people, occupying a defined territory, under a supreme power and a definite constitution. It is a continuous conscious organism and a moral personality which has its foundations laid in the nature of man, and its purpose is the welfare of the people. †

* The American Union constitutes the real American State. Our commonwealths have only a limited sovereignty, and are imperfect States in the real sense of the word State; they are only parts of a great State.

† This definition is chiefly taken from Mulford's work, *The Nation.*

CHAPTER IV.

THE TWO GREAT FACTORS IN A NATIONAL ECONOMY.

The economic life of a nation is the product of two great factors; the first of these to be considered is the territory, or portion of the earth occupied.

1. Territory.—When we examine the influence of territory on economic life we must direct our attention, first, to the character of the *surface*. It will make a vast difference in the features of the economy of a nation whether the surface of the country is level or hilly or mountainous.

Soil.—We should in the second place take note of the soil itself, and of what is below the surface of the earth. The importance of these considerations becomes manifest when we reflect on the character of the national economies of various countries, as, for example, of the United States, Germany, and Switzerland. American prairies are at least a partial explanation of the invention of the steam-plow; the treasures below the earth's surface, of the peculiar economic life of eastern and indeed western Pennsylvania; while sunny hillsides in Germany account for the vineyards along the Rhine, and the mountains of Switzerland give a clue to common property in pastures, to fine cheeses, and to numerous small industries, as well as to the sturdy independence and democratic institutions of the Swiss people.

The Water Privileges and their special character must in the third place claim our attention, for they are of peculiar importance in shaping the economy of a nation. A fine coast on an ocean favors international commerce, and great inland streams like the Mississippi and Missouri, and magnificent lakes like Michigan, Superior, Erie, and Ontario, encourage the growth of domestic trade. Fine falls of water

promote manufactures, as we may see in the valley of the Connecticut, and in Augusta, Georgia, favorably situated on the Savannah. The scarcity of water in the "far West," and the wrong policy which has allowed private individuals to gain control over such streams as exist, go far to show how land-monopoly in certain regions of our country was established and is still supported.

The Atmosphere is the fifth feature of the physical attributes which go to make up territory. Differences in atmosphere explain peculiarities of economic life. The favorable climate on the shores of Lake Erie is an indispensable condition of the fine fruit grown in the western part of New York State.

Size must next be mentioned. The great size of a country like the United States, admitting of a rare degree of national economic independence and of most diversified pursuits, is an immense advantage to the American people.

Neighboring Nations.—Finally, the position of a country with respect to neighbors must affect materially its entire life. Germany, situated in a great plain on the continent of Europe, surrounded by hostile nations, is an illustration. The bare statement of the facts relating to the situation of Germany shows that the Germans must, as things are, be a warlike nation.

2. **Man.**—The second great factor of the two which produce a national economy is the human factor, man; and we must treat this also under various sub-heads:

a.) **Economic Activity of Individuals.**—The economic activity of the individuals in the country will first receive our attention. The national economy is not a mere addition of all private economies in the nation, nor of all private economies plus all public and quasi-public economies. The economic life of a nation may perhaps be better compared to a chemical compound which is something different from the elements composing it, and is yet determined in its character by these elements. Water is not merely oxygen plus hydrogen. It is a new thing. We must, then, pass on

from a consideration of the physical situation and environment to the economic traits of the human beings who make up the nation. Their activity, their perseverance, their integrity, their skill, all must be examined if we would understand the national economy.

b.) **Legislation and Administration.**—The second sub-head comprises legislation and administration, and, like the first, is one form of the human factor. It is difficult to say whether this should precede or follow the first sub-head, in a perfectly logical arrangement. Individual economic activities largely shape legislation and administration, but these in turn profoundly affect individual economic activities. Thucydides says that the explanation of all historical occurrences is that *A* causes *B* and *B* causes *A*. Action is accompanied by reaction. This is also the case with respect to men and laws. Men make laws, and these in turn in their reaction make men what they are.

The industrial importance of legislation and administration is generally underestimated. Even where government is reduced to its lowest terms it must do much to make possible the existence of an orderly, peaceable society. What would be the condition of property and inheritance without laws? Property could not exist at all, in our present sense of that word, without government—for we are now considering the right and not the things over which that right is exercised. Laws regulating the inheritance of property exist every-where, and profoundly affect the character of the national economy, making one country radically unlike another. Laws governing the relations of man to wife are found in every civilized nation, and these have to do with economic relations as well as other relations. Laws of contract, laws establishing patent-rights, laws designed to protect children and other helpless classes, may also be mentioned as illustrations.

A comparison of France and England reveals most marked differences in their economic life. The English farmer, renting a farm of a great landlord, and the agricultural la-

borer are prominent features of rural life in England, while small peasant proprietors, farmers tilling their own little estates, attract the attention of the traveler in France. What is the cause of this difference? Certainly the law has much to do with this; for in England primogeniture and entail obtain, while in France a father is compelled by law to divide the bulk of his property equally among his children.

Factor one becomes relatively less important and factor two becomes relatively more important as civilization advances. Man gains increasing power over nature and makes the wilderness blossom like the rose. The country about Halle on the Saale, where the writer once studied, was, it is said, naturally barren, but now it is like a garden. Man's skill has produced the change. Man has subjugated nature. Once a city could exist only on a great body of water, but the highways of modern times enable cities to spring up a hundred miles from any important navigable stream.

CHAPTER V.

THE ECONOMY OF A NATION AN HISTORICAL PRODUCT.

The Law of Change.—The next main point to engage our attention in our examination of the characteristics of a national economy is the fact of successive changes in its historical formation. All know how the uneducated talk. Suppose changes in laws or institutions are suggested. People frequently smile in a superior kind of way and say, "It does very well for the theorist to talk about such things, but it is only theory." Conditions of property, labor, and capital cannot, in their opinion, be changed, and they assume that such as they are now they will continue to be. "No," say they, "things will go on in pretty much the same good old way." Now, if there is any such thing as a good old way in nature or in society, the man has never yet appeared who discovered it. There is none. The assumption that there is such a thing is a mere fiction. Take the one economic factor of labor. It is found in a condition of slavery, in a condition of serfdom, and in a condition of free contract. But these are only names for the three general conditions in which labor has been found, and within each one of these conditions there has been a multitude of changes. Slavery has assumed a vast variety of forms, some extremely harsh and some extremely mild, with almost infinite gradations between the two extremes. Serfdom at times appears as harsh as slavery, and it is also found in forms which differ little from freedom, and which are doubtless in some respects superior to the condition of the ordinary laborer who is free to make his own bargains, or who, as we say, lives under the *régime* of free contract. Free contract in its turn means many different things: sometimes, indeed, the oppression by the employé of the one

who employs labor, but oftener the practical dependence of the laborer on account of the pressure of economic necessity; at times, indeed, a dependence which virtually amounts to slavery, as has been seen in the case of tailors in London employed by so-called "sweaters," or small contractors, who have reduced their workmen to such a condition that perhaps a dozen have only one coat among them, and they are kept prisoners in the dens where they work. Combinations of laborers are now introducing changes in the *régime* of free contract, for organizations make contracts for a multitude of individuals. Laws undergo change, and institutions, which are the outgrowth of laws and custom, are gradually but perpetually undergoing modification. Property is in a continual flux. A large part of landed property was once common property; that is to say, owned by a body of persons, town, state, or city, in their organic capacity. Village communities once owned land which was parceled out among the citizens or used in common. The greater part of land in civilized nations has become the property of individuals, but we now observe a reverse process of some significance. Forests are becoming in modern countries public property once more, and the process has begun even in the United States. It is bound to continue. We see cities also purchasing—in some cases repurchasing—land for public purposes, especially for pleasure grounds. One great species of property, railways, has in Prussia mostly passed out of private hands into the property of the State, and charter conditions of railways are likely to bring this about in Austria, France, and elsewhere in a comparatively near future. The tenure of private property, or the conditions under which it is held, also change from time to time, now in one direction, now in another.

The Evolution of Law.—A distinguished student of early law, Sir Henry Sumner Maine, has clearly shown the perpetual changes which all law undergoes. "We are in danger," says this jurist, "of overestimating the stability of legal conceptions. Legal conceptions are indeed ex-

tremely stable; many of them have their roots in the most solid portions of our nature. . . . This great stability is apt to suggest that they are absolutely permanent and indestructible. . . . What I have stated as to the effects upon law of a mere mechanical improvement in land registration is a very impressive warning that this position is certainly doubtful, and possibly not true. The legal notions which I have described as decaying and dwindling have always been regarded as belonging to what may be called the osseous structure of jurisprudence; the fact that they are nevertheless perishable suggests very forcibly that even jurisprudence itself cannot escape from the great law of evolution."* The evolution of property, especially of property in land, has been described in great detail by a learned Belgian, Professor de Laveleye, in a work which bears the title *Primitive Property*.

The Necessity of Historical Study.—We find marked economic differences between various periods in the life of one nation, and almost equally marked differences between the economic institutions of contemporaneous nations. All this shows first the necessity of a careful historical and statistical study of economic activities and institutions in the past and in the present. It reveals to us, in the second place, the folly of those who would prescribe the same laws for all people and for all times, or who would pass judgment on the institutions of Prussia under Frederick the Great as if these same institutions existed to-day in America or in England.

Peculiar Position of Political Economy. — The changes which continually take place in our economic life are in great part the product of human will, for this will of ours is a chief economic factor. Political economy is a peculiar science, occupying a position midway between natural sciences and mental and moral sciences. It deals with relations between mind and matter, or, more broadly speaking, man and the external physical universe. Our economic life is in part governed by laws over which we have little con-

* Maine's *Early Law and Custom*, chap. x.

trol, and to a still greater extent by physical laws which we cannot alter in the least, but which we can only use; but our power is nevertheless very great, and it is daily becoming greater as we learn better how to use natural laws, and thus to subjugate nature. Within certain limits we can have just such a kind of economic life as we wish, and herein lies our responsibility, as a people, for the character of our national economy. It is at our peril that we try to evade or shift this responsibility. We must continually progress, and "Progress in economic life consists in this: that our economic activities and institutions realize in a higher degree than heretofore the demands of humanity and justice, and become the basis of a higher civilization of individuals and nations." *

Read Ward's *Dynamic Sociology*, introduction to vol. i, and M. de Laveleye's *Primitive Property*, author's preface to original edition, and chap. i.

* Schönberg, *l. c.*

CHAPTER VI.

THE STAGES IN THE ECONOMIC DEVELOPMENT OF CIVILIZATION.

Change in Economic Life.—While the evolution of our economic life proceeds without interruption, in taking a survey over human history we discover such marked differences gradually appearing at long intervals that we divide this evolution into parts which we may designate as stages. We mean, then, by stages in economic development changes and advances in the methods of procuring economic goods, in their character, variety, and number, in the distribution of goods, in the manner in which material and immaterial wants are satisfied; in short, in all that is included in the designation economic life.

Prehistoric Economy.—There seems to be evidence of the existence of a prehistoric man who obtained material goods like beasts, by simply taking possession of natural products, exercising little or no control over nature, and protecting himself from the elements only by caves or the simplest contrivances. The construction and use of his rude buildings appear to have been learned from the lower animals. Man was in such a condition a slave of nature. Human law did not restrain him. There was no law, as there is no law to-day in the "heart of Africa." Nevertheless, the modern man, whose daily life in a thousand ways is guided, directed, and controlled by the statutes framed by himself and others, is a thousand times freer, and wise laws even increase freedom. Economic freedom is a far more important thing than political freedom, but the two are quite different. What advantage is it to me to have the legal right to take a trip around the world if I

never have the economic means to enable me to do so? What advantage is it to be able to seek another employer, provided there is no other who cares for my services, and my present employer alone stands between me and death by starvation? So the savage is free to come or to go, to work or to play, so far as laws of man are concerned, but nature enslaves him more pitilessly than Draconian laws. "The true savage," says Sir John Lubbock, "is neither free nor noble; he is a slave to his own wants, his own passions; imperfectly protected from the weather, he suffers from the cold by night and the heat of the sun by day; ignorant of agriculture, living by the chase, and improvident in success, hunger often stares him in the face, and often drives him to the dreadful alternative of cannibalism or death." *

Modern Man.—With the foregoing passage should be compared the following sentence from Sir Henry Maine: "With us, I need scarcely say, there is little conscious observance of legal rules. The law has so formed our habits and ideas that courts of justice are rarely needed to compel obedience to it, and thus they have apparently fallen into the background." †

The Economic Stages.—This earliest existence of the human species—earliest at any rate from the stand-point of evolution—is something so remote, and something about which our knowledge is so fragmentary and uncertain, that we are scarcely able to treat it as a separate stage in economic evolution. We begin in our description of economic stages with the time when men had learned to kindle fires, to eat meat, and to live in some kind of political communities, however imperfect. We then divide economic development from this time up to the present into five stages when viewed from the stand-point of the production of material goods, and into three stages when viewed from the stand-point of the transfers of these goods. This second classification of stages must be regarded as subordinate to the first. The

* *Prehistoric Times*, chap. xvi.

† *Early Law and Custom*, chap. xi.

following are the stages into which we may roughly divide economic progress when it is viewed from the stand-point of him who inquires how goods are produced :

1. The hunting and fishing stage.
2. The pastoral stage.
3. The agricultural stage.
4. The trades and commerce stage.
5. The industrial stage.

We may ask the question, How are goods transferred from person to person? When we examine the methods of transfers of goods with which we are acquainted we find that we may divide economic progress from the feeble beginnings of civilization to our own day into three stages with respect to these transfers, and these three stages are the following:

1. The period of truck economy.
2. The period of money economy.
3. The period of credit economy.

These stages will be briefly described in the following chapter.

Sir John Lubbock treats of savage man and his evolution in a most interesting manner in the last chapter of his *Prehistoric Times.* It is chapter xvi, and entitled, " Concluding Remarks." The student would do well to read also chapter iii of Drummond's *Tropical Africa*, on " The Aspect of the Heart of Africa : The Country and People."

CHAPTER VII.

ECONOMIC STAGES VIEWED FROM THE STAND-POINT OF PRODUCTION AND FROM THE STAND-POINT OF TRANSFERS OF GOODS.

I. Economic Stages Viewed from the Stand-point of Production.

1. The Hunting and Fishing Stage.—Nature is the principal factor in production in this stage. Labor, and more especially capital, play very subordinate roles. Man still contents himself with what nature gives. Labor is expended chiefly in procuring her bounties. Animals are not tamed and rendered subject to man; still less can any traces be found of attempts to improve useful animals by breeding, or, to use Mr. Alfred Russel Wallace's happy phrase, by the substitution of man's selection for natural selection. Products are not transformed by manufacturing processes; goods are not even stored up in time of abundance to make provision for a future time of dearth. The American wild Indian, a type of this stage of evolution, lives in a condition of gluttony when the hunt is successful, wasting good food with unconcern, and suffers the following week when good fortune no longer waits on his bow and arrow. In this respect as in others he exhibits the traits of a child among civilized men.

Economic action is relatively isolated. It is confined mainly to the family, within which there is a rudimentary division of labor; but there is no common organic activity. It is, for the most part, each man for himself. Goods are acquired not for exchange but for immediate use, although there seems to be no unwillingness to make exchanges when opportunity offers to get something new and attractive, if

we may judge from the traits of American Indians and the negroes of Africa.

As there is no real division of labor, but all perform the same thing, there are no economic classes; no employers and no employés and no industrial conflicts. The very vocabulary of modern political economy, like wages, capital, strikes, lockouts, taxation, arbitration and conciliation, customs duties, must be wanting. The phenomena of so called over-production or under-consumption and crises are as unknown to people living in this stage as the economy of the possible inhabitants of Jupiter to us. The greater part of property is common, as is all land. Private property is confined to one's arms, one's household goods, and the immediate rewards of one's labor.

Hunting Tribes.—There is some difference between those living primarily on the products of the chase and only secondarily on fish, and those who reverse the process. The environment of each class modifies essentially its characteristics. Confining ourselves for the moment to those living in the hunting stage, we find a high development of such qualities as cunning, endurance, skill, bodily strength, but the mode of life does not lead to the development of technical skill nor to a reflection upon the processes of nature. This condition of life presupposes large territories and a sparse population. It has been estimated that in a population like this, living purely on the products of the chase, each hunter requires fifty thousand acres, or seventy-eight square miles, for his support, an area which in Belgium would support twenty-five thousand people. There seems to be reason to suppose, however, that this is an under-estimate of the population which can be supported by the chase; certainly so if any subordinate means of support exist, like fishing. Berries have almost always been a partial means of support, as has other wild fruit. Certainly, however, the population must be thin, and wars may be regarded as an economic necessity for the barbarians living in this stage whenever there is not an abundance of unoccupied land,

just as cannibalism has been described as an economic necessity for human beings of the most degraded sorts; human beings to whom Sir John Lubbock is scarcely willing to attribute responsibility. The perpetual warfare with man and beast which is a condition of existence develops the bravery which has been so much admired in the American Indian.

Fishing Tribes.—Those living primarily and chiefly from the products of fishing are different. As might be expected, they are more peaceable and population is denser, as so large a territory is not required for the support of a given number of people. A larger accumulation of the products of past labor, or capital, is found among fisher-tribes, as there is less need of migrations. Dwellings are of a more permanent character, and boats and fishing implements are constructed. Labor is a more important factor, and on the whole the power of man over nature is greater than among hunting tribes. People living in the fishing stage can now be found only in the frigid zone. Tribes living on the produce of fishing have seldom become nomads, but generally agricultural, and often they have taken early to commerce and navigation.

2. The Pastoral Stage.—When hunting tribes begin to domesticate animals they enter usually upon the pastoral stage. The earliest chapters of the Bible give us vivid pictures of peoples living in the pastoral stage. Man does not live merely by taking what nature offers, but he acts upon nature. He gains a partial control over nature. The element of labor comes forward more prominently. Labor is required to seek out pastures and to protect animals. Families, clans, and tribes living in this stage have no settled abiding place, but they wander to and fro on the face of the earth to find food for their flocks. As land is not cultivated it requires a large area to support a single family, and over-population is a frequently recurring phenomenon. Tribes separate, part going one way and part another, or they attempt to get more land by conquest of

others. Such a separation is described in the Bible in the thirteenth chapter of Genesis, where it is said that "Abram was very rich in cattle, in silver, and in gold. . . . And Lot also, which went with Abram, had flocks, and herds, and tents. And the land was not able to bear them, that they might dwell together: for their substance was great, so that they could not dwell together. And there was a strife between the herdmen of Abram's cattle and the herdmen of Lot's cattle. . . . And Abram said unto Lot, Let there be no strife, I pray thee, between me and thee, and between my herdmen and thy herdmen. . . . Is not the whole land before thee? Separate thyself, I pray thee, from me: if thou wilt take the left hand, then I will go to the right; or if thou depart to the right hand, then I will go to the left." Thus they separated, and is it not a perfect picture, setting before us the economic conditions of the time and place?

But attempted conquests frequently take the place of peaceful separations, and tribes of brethren which are too large for the territory already occupied seek to gain more by displacing other tribes. This over-population explains the warlike incursions of barbarian hosts into Europe from the heart of Asia, and the wanderings of the nations in the early centuries of the Christian era. This part of history, like others, cannot be understood without a knowledge of political economy.

Land was for the most part common property; common, that is, to members of the tribes, for rights of other tribes to property or even to life were not recognized. Within the tribe or nation—if we may properly use the latter expression—there was a very real brotherhood, but ethical ties did not pass beyond tribal bounds. Stranger and enemy are often expressed by the same word. But even the tribal claims to land can scarcely be designated by the modern word property. The only right in the land was one of possession; the right of use as distinguished from the right of property. This must not be understood to mean that in any historical time there was no such thing as a right of

private property in land, and that land was never bought and sold. Stationary peoples existed contemporaneously with wandering tribes, and, while the greater part of land was held in common, pieces of land may have been private property. Abraham, it will be remembered, bought of Ephron, the son of Zohar, a field for a burial-place for Sarah his wife, and paid four hundred shekels of silver for it. Yet the ceremonies connected with it indicate, as has been well shown by Sir Henry Maine in similar cases, that the land had belonged to the tribe, and that at the time it was a matter in which the tribe felt themselves concerned, and not merely a private transaction between Abraham and Ephron the son of Zohar.

The pastoral stage, nevertheless, allowed large accumulations of property in the form of cattle and of precious stones, precious metals, and finely woven fabrics, or, in general, of capital.

Extremes of Wealth.—We also find in this stage enormous differences between the possessions of various members of the clan and the tribe. The poor, the well-to-do, and the rich already exist. Abraham, for example, was "a mighty prince." Among the sons of Heth men are divided into employers and employed—the latter generally slaves—and economic classes are formed. Slavery was not a possibility in the first economic stage, for maintenance with weapons was impossible, and masters could not arm their slaves. The conquered were slaughtered in the earlier stages, but in the pastoral stage their lives were frequently spared and they were reduced to slavery. A milder form of warfare was thus introduced. Women and children were evidently spared earlier than conquered males, who were frequently massacred after the beginning of the pastoral stage, and also even after the later stages began to exist.

A more regular economic life and a higher degree of probability of permanent sufficiency of food succeeded the former irregularity of superfluity and direst want.

Exchanges in the pastoral stage are still the exception.

The economy of each family or household is for the most part sufficient unto itself.

The leisurely and often quiet mode of life, the nature of the work—watching the flocks in the open fields—leads to an observation of natural phenomena, especially those of the heavens, and astronomical knowledge exists in a rudimentary form. Religion and poetry were the outcome of a contemplative and reflective life, and in the language of shepherds highly figurative speech is common.

We find among nomads a high appreciation of personal freedom, warlike customs, but no feeling for home. Patriotism, as we understand it, was of a later growth. All the civilized nations of Europe once led the nomadic pastoral life on the highlands of middle Asia.

3. The Stationary Agricultural Stage.—Agriculture is in the third stage added to the keeping of flocks, to the chase, and to fishing. A greater variety of food is offered to man, who now ceases his wandering life. A denser population becomes possible, and the union of different settlements into a larger political whole gradually forms the modern nation. Dwellings now become finer and more substantial, and there is an increase in the course of time in the number of objects included in private property, and the interests on the side of quiet and orderly progress become stronger. It is not, however, clear that the transition from the pastoral and the nomadic stage is always at once or even for some time accompanied by an increased number of objects included in private property. There would, on the contrary, from the researches of Sir Henry Maine, appear to be evidences of an opposite movement. Village communities were probably the earliest form of settled agricultural life among the Aryans, and these continue in East India, in Russia, and elsewhere, even to the present day. Land belonged to the village, and the arable portion of the common territory was allotted from year to year or for longer periods to the members of the community, while pasture-land and forest-land were used in common. This is generally recognized,

but it appears that frequently movables were common property, and even to-day in Montenegro there are village communities in which the earnings of a member who has left the community and gone out into the world are still claimed by the community. Sir Henry Maine tells us also of a Russian village whose chief income is derived from a boarding-school kept by ladies who are members of the community. Where, however, the village community does not exist at all, or has ceased to exist, rights of private property appear gradually and steadily to expand, and to cover an increasing number of things. The general rule in this stage is communal property in land with personal rights of usufruct. Each one has certain rights according to his needs and situation, possibly according to rank, in the common pastures and common lands. Love of home and country now arise. Production is still largely carried on in comparative isolation. Things produced are consumed chiefly in the household, and few exchanges take place. Such commerce as exists ministers chiefly to luxury, and this long continued to be the case, which partially, at least, explains the hostility of ancient philosophers and of the fathers of the Church to commerce.

This stage endured for centuries among many peoples until the *Städtebildung*—the building of the cities—in the tenth and eleventh centuries. It was not wholly displaced, but only modified, unceasingly modified, with the progress of time, by subsequent stages of economic life. To-day the marks of this stage of life are clearly discernible in our industrial life even in America. The word "common" is an instructive survival. The Boston "Common" and "commons" of other New England towns, pieces of land still left in common ownership, are parts of larger tracts once held in common, and on which all citizens had rights of pasturage and other rights of usufruct.

4. Trades and Commerce Stage.—Hand-labor, so-called, becomes an important factor in this stage. Raw materials are transformed by the skill of man, and his power over nature becomes more marked. Commerce does not

spring up, for this has already existed, but it begins to play a far more important part in industrial life, and the finer products of one region or country are exchanged for those of another. Even bulky products not quickly perishable are transported long distances when this can be done by water. Important cities on the sea-coast and on great rivers arise, and these become centers of culture and refinement. Mines are worked, the use of money becomes more general, and a radical change in the entire economic life of the nation is observed. This life becomes a real organism, and the people who live it have entered upon the era of modern civilization.

Economic Classes and the Rise of Cities.—The division of labor, beginning on estates of powerful temporal and spiritual lords and in convents, gradually extends, and population is divided according to occupation into a large number of economic classes. Cities, the most active centers of the new life, become objects of hostility to old magnates, and frequently unite with distant and more powerful princes against feudal lords for protection, and at the same time strengthen central powers. Dependents of feudal lords are encouraged to fly to the cities, and the legal maxim is established, "City air makes free." Residence in a city makes a former serf a free man. Guilds of free men are gradually developed, and these foster the growth of trades and commerce, using their power for good at first, but later, in a period of decay, for evil, in the establishment of exclusive privileges and onerous monopolies. Changes in economic legislation and administration take place. Non-material products are bought and sold. Writers, teachers, and artists are found as classes in the economic organism. In antiquity the Egyptians, Indians, Phenicians, Assyrians, Medes, the Persians, the Greeks, and Romans occupied this position. The civilized nations of the present day lived in this stage until the nineteenth century, and in our South until the Civil War.

5. The Industrial Stage.—The industrial stage is the period in which the great civilized nations of the earth are now

living, and to a description of which the rest of this book will be chiefly devoted. We observe in this stage far-reaching changes in the economic organism of society, due largely to a marvelous extension of the principle of division and combination of labor. This was made possible, was indeed necessitated, by the application of steam to industry and the improvement in the means of communication and transport. The political freedom and nominal legal equality of all men —formerly regarded as a mere Utopia—are now realized. Sciences and arts have advanced with giant strides.

As we call this stage the industrial, we may speak of the industrial national life as well as economic national life. The two expressions are often used interchangeably. We can speak of industrial society as well as economic society. The difference to be observed between the two words is that economic is more general in its use, and that industrial is frequently confined to this last stage of development. Economy has also a wider range of use than industry. We thus speak of a national economy, but not in the same sense of a national industry, for the latter expression would be generally understood to mean one pursuit or occupation in the national economy.

Before we pass on to a description of some of the general characteristics of modern economic life it is necessary to speak briefly of the three stages into which economic progress may be divided with respect to transfers of goods.

II. Economic Stages Viewed from the Stand-point of Transfers of Goods.

1. Truck-Economy.—Truck-economy is the term used to denote the period which precedes the use of money. Barter is often used, but it is too narrow. Barter implies mutual or two-sided transfers, whereas the element of reciprocity is often absent in transfers of goods. There are one-sided transfers as well as two-sided transfers. Taxes, presents, inheritances, are examples of one-sided transfers of goods. Barter is included as a sub-head under truck-econ-

omy, but it includes, to be sure, the greater part of the transfers. We have, then,

A. One-sided transfers of goods.

B. Two-sided transfers of goods, or barter.

Under B we have three sorts of barter: *a*, material goods for material goods; *b*, material goods for services; *c*, services for services.

2. **Money-Economy.**—The use of money as a medium of exchange becomes common and displaces truck for the most part, though transfers without the intervention of money are frequent.

3. **Credit-Economy.**—Credit is the instrument for the greater number of exchanges. Money is still used, but, in the latest development of credit-economy, only as "small change." Banks are the chief organs of society for credit-economy. We live now in the period of credit, and the volume of money is small when compared with the amount of annual transactions in what are called instruments of credit, by which we mean principally checks, drafts, and bills of exchange. The receipts of banks are calculated in terms of money, but an American bank in a great city will in a day's business frequently handle over forty dollars in instruments of credit for every dollar in actual money. Many modern phenomena are due to credit. Crises and so-called over-production are closely connected with credit-economy. More will be said about the features of our present credit-economy in subsequent chapters.

The Economic Stages not Exclusive.—The division of economic progress into three stages with reference to the manner in which goods are transferred has been criticised, and one criticism has been already mentioned. This second classification is subordinate to the first. The period of truck would, in a rough kind of way, be coincident with the hunting and fishing and pastoral stages, and would continue on into the stationary agricultural stage until that began to pass over into the trades and commerce stage. A great deal of truck and barter still occurs in the trades and commerce

stage, but money has become a general medium of exchange, and probably this stage could be called a period of money-economy. Credit-economy is really only a part of the industrial stage, and belongs to the nineteenth century. One fact alone is sufficient to show the change from the eighteenth century to the nineteenth. Banks existed before the present century, but were comparatively few in number, were chiefly confined to a few cities, and were not an essential part of the entire national economy. There were, for example, only three banks in the United States a hundred years ago, and now some three thousand national banks are doing business in our country in addition to banks organized under State laws. Banking means credit economy.

It is also said that money does not exclude truck, and credit does not exclude money, but this can scarcely be urged as a valid ground against this division of economic progress into these three periods. Money is even found in the period which we ought to call truck-economy. These terms used simply signify the dominant characteristics of periods which gradually and perhaps almost imperceptibly pass into one another, just as the vegetable kingdom passes over into the animal kingdom.

Prehistoric archæology has been divided into three periods, namely, the stone age—sub-divided into two parts, the palæolithic and the neolithic—the bronze age, and the iron age, but the later period does not exclude the earlier. Stone implements are used both in the bronze and iron ages.

The literature in English touching this economic progress of man through stages is inadequate. Many valuable works exist on the origin and growth of civilization, but they do not deal with the subject from an economic stand-point, and it is necessary to place many incidental remarks together to obtain a picture—even so imperfect—of the economic life of the tribes and nations discussed. The following works will be helpful:

Sir John Lubbock's *Prehistoric Times*, particularly the last chapter, and also his work, *Origin of Civilization and Primitive Condition of Man*. Dr. Daniel Wilson's *Prehistoric Man*, dealing chiefly with natives of America. Reports of the Bureau of Ethnology connected with the Smithsonian Institution, Washington. Morgan's *Ancient Society*. Tylor's *Anthropology*, particularly chapters ix to xi. Sir Henry Maine's works are standard authority on village communities, particularly in India. The four works written by him of importance in connection with this chapter are *Ancient Law*, *Village Communities in the East and West*, *Early History of Institutions*, and *Early Law and Custom*, especially chapter viii in the last named book, on east-European house communities. A popular account of Russian communities is given in the interesting work on *Russia* by Mackenzie Wallace. A very clear picture of life in the Russian village community, the Mir, is given in the first chapter of *Russia Under the Tsars*, by Stepniak, published in cheap form in the Harper's Franklin Square Library. Aspects of English progress during the past six centuries are described in *Work and Wages*, by Thorold Rogers. Toynbee's *Industrial Revolution* treats admirably of recent changes. Parts of economic treatises in English deal inadequately with the subject-matter of this chapter, as, for example, the *Preliminary Remarks* of John Stuart Mill's *Political Economy*, and chapter vii of Book I of Marshall's *Economics of Industry*. German literature is richer in works dealing with the evolution of economic life, but perhaps no brief sketch is better than Schönberg's *Volkswirthschaft*, which serves as the first monograph in the *Handbuch der Politischen Oekonomie* which he edited. The present author has derived more from Schönberg for Part I for this work than from any other source. Knies has treated the subject admirably in his work, *Politische Oekonomie vom geschichtlichen Standpunkte*. These works have unfortunately never been translated. An important sketch of economic development has been given by the able protec-

tionist, Frederick List, in his book *Das Nationale System der Politischen Oekonomie.* Two translations of this work exist: an early one by G. A. Matile, which appeared in the year 1856, and a later one by Sampson S. Lloyd, M. P., which appeared in the year 1885. M. de Laveleye's work on *Primitive Property* should be read by all who desire to familiarize themselves with the evolution of property, especially in land. Valuable suggestions for young countries like the United States are offered.

CHAPTER VIII.

A FEW MAIN CAUSES FOR THE EXISTENCE OF PRESENT ECONOMIC PROBLEMS.

Economic Problems not Local.—We have reached the highest stage yet attained of economic life, and yet there were never so many economic questions pressing for solution as at present. The situation of no nation is peculiar in this respect, though narrow ignorance in each nation assumes that discontent in that particular land is without foundation. It is particularly noticeable that it is very general in modern countries to ascribe discontent to the agitation of foreigners. The truth is, however, that the general features of industrial society are very similar in all modern countries, and it is in the nature of industrial society itself that we must look for causes for the existence of pressing economic questions. What are these causes?

1. The Industrial Revolution.—We must first notice the fact that far-reaching changes in the socio-economic organism have recently taken place and that these have succeeded one another with surprising and unprecedented rapidity. These changes have been brought about by advances in science and art, through discoveries and inventions. So rapid have been the changes of the past century that it is customary to speak of them as the industrial revolution. Space is so limited in a work like this that it is impossible to dwell long on the remarkable features of this recent development. Let the reader, however, call to mind the many things in our economic life which the world never saw before. He will, of course, think at once of the railway and of steam navigation, and of other applications of steam to industry. But these have brought about other important new phenomena. The con-

centration of large masses of working-people in great factories of which they own no part, and under a single employer, such as we see daily, is something new for skilled mechanics; not that nothing of the kind ever existed before, but its existence is so much more common and affects so many more people that in its social aspects it is new. In the last century, and in previous centuries of the Middle Ages, artisans owned the tools which they used, and after they had fully mastered their trades usually called no man master, but worked in their own little shops. Even within the memory of the author, still comparatively a young man, this condition of things has become less common. The smith under the spreading tree, of whom Longfellow sang, is disappearing. He has left the cross-roads in the little village and now works in a machine-shop. His friends, the carpenter and the shoemaker, have accompanied him. A few artisans may stay to do repairing and other small work, but the cheaper processes of vast establishments have rendered this migration inevitable for the many. Only the few among artisans can live in the old style. This can be seen in the immediate neighborhood of the meeting place of the Chautauqua Assembly in Chautauqua County, in New York State, as well as elsewhere. Looking across Chautauqua Lake one sees Maysville; a few miles to the west is Westfield; a few miles north-east of Westfield is Fredonia, and there are many other small places within a radius of fifteen or twenty miles of which very few have kept pace in their growth with the growth of population in the United States, Jamestown, at the foot of the lake, being a notable exception. Articles formerly made in these small villages are now manufactured in Buffalo, Cleveland, and other great cities. Houses are constructed in Buffalo in large establishments, and they are sent to small places where it is only necessary to put them together. Merchants have also been obliged to leave the villages where they were owners of independent establishments to seek employment in immense city retail and wholesale shops, because the railroad has carried their customers away from them. The amount of production in-

creases continually, but the number of separate establishments where production is carried on decreases uninterruptedly. Milling serves as a good illustration. "The completion of the great mills has caused the abandonment and decay of hundreds of the picturesque, old-fashioned neighborhood mills. In 1870, according to the census of that year, there were in the entire country 22,573 grist mills, 58,448 hands, representing $151,500,000 of capital, and making a product worth $444,900,000. In 1880 the number of establishments was 24,338, the number of hands 58,407, the capital invested $177,300,000, and the value of the product was $505,100,000 (the price of flour had declined ten per cent. in this decade). The increase shown in the number of establishments . . . is more apparent than real, the great bulk of the flour having been made in a decidedly smaller number of mills in 1880 than in 1870. Since 1880 the blighting effect of the great merchant mills upon the small establishments has become visible to every one. According to the *Miller's Directory* for 1884, . . . there were at that time some 22,940 mills in the country, a decline of 1,398 from the census figures of 1880. . . . From 1884 to 1886 . . . the number of milling establishments has declined to 16,856, . . . a loss in two years of more than twenty-six per cent." * The number of mills in the South has declined more rapidly than elsewhere. In 1880, in North Carolina, 1,313 mills employed only 1,844 men, but in the same State there were only 632 mills in 1886. It is said that the number of mills in the country is destined to become very much smaller still. Readers can readily gather from census and trade reports many similar illustrations of this concentration of business, which is one of the main causes of the existence of present economic problems. Self-employment or the employment of others becomes constantly more difficult, and the number who succeed in escaping the condition of employés is relatively diminishing with the progress of industry. A few escape from the ranks to become self-made men, as we say; that is, great and wealthy

* Albert Shaw, in *The Chautauquan* for October, 1887.

employers of hundreds and thousands of workingmen; but they are the exceptions, and must be, so long as present industrial movements continue. Thrift, frugality, and temperance of the masses cannot alter this in the slightest degree. One who excels may rise to industrial power, but his superiority would cease should others emulate his qualities. This fact, which is as simple as multiplication and division, is becoming very generally recognized, and produces a wide-spread restlessness and uneasiness. Many perceive that they can never escape from the lot of workingmen, and that the only way to improve their condition is to elevate their entire class. The solidarity of all interests is felt as never before.

Corporations.—The study of corporations reveals another aspect of the industrial revolution. They now control a large proportion of the wealth of the world and count their employés by the million; yet in 1776 Adam Smith gravely argues, in his *Wealth of Nations*, that as a rule corporations cannot succeed, and at that time there were few examples of successful corporations. The writer does not remember that he mentions one example of a successful manufacturing corporation, and the number of such corporations was certainly very few. If the reader will, however, take the trouble to look through the columns of any paper devoted chiefly to manufacturing interests he will probably find that the names of more than half the establishments mentioned show clearly that they are corporate concerns.

But another step has been taken in the evolution of industry which tends to minimize the individual still further, and to socialize production more than was even dreamed of by our forefathers. As corporations are combinations of individuals we now have trusts, which are combinations of corporations, and a great part of many industries is now carried on under one general management.

Banks.—The increase in the number of banks has already been mentioned, and their existence in every town in the civilized world is another evidence of the industrial revolution. Business could not to-day be carried on without

banks, and the failure of a few large banks at financial centers like New York and Boston is sufficient to cause a widespread panic, touching even London, Berlin, and Paris. But one hundred and fifty years ago there was not an institution in the United States performing the functions of a modern bank, and the oldest existing American bank, the Bank of North America, in Philadelphia, was not founded until 1781.

Commerce, domestic and international, means a different thing from what it did a hundred years ago, when Adam Smith assured English farmers that even with free trade they need never fear any considerable importation of wheat and beef from Ireland, on account of the expensiveness of transportation! Commerce on the one hand ministers to the necessities of life, and not chiefly to luxury, as formerly, and on the other hand it intensifies international competition. The question of the tariff assumes a new importance.

Free importation of foreign laborers is something of unprecedented magnitude on account of cheap transportation. The labor market comes to embrace the world. This also modifies the tariff question.

Problem of the Working Day.—Now this industrial revolution is, on the whole, in the direction of progress, but it has come so suddenly that it has forced problems on us which we have not as yet solved. Take the question of the eight-hour day. It has become a live question because, on the one hand, machinery enables us to produce more in eight hours than formerly in three times eight hours; on the other, because those engaged in great factories and other manufactories find modern production more wearing on the nervous system, thus predisposing them to the use of intoxicating stimulants, and more deadening to the intellect, and thus requiring more leisure for recreation and the development of the higher faculties. It can hardly be disputed that if all able-bodied members of society worked either with body or mind, that is to say, rendered themselves useful, enough could be produced in eight hours, or even less, to satisfy every legitimate want of every human being. These facts must not be

taken as a conclusive argument in favor of the eight-hour day for those engaged in manufactures—manifestly the case of agricultural laborers is different in some particulars—but they do show what has made the eight-hour day a live question.

Resistance to Improvements.—These changes in production and in distribution, in domestic and international commerce, have been followed by an almost infinite variety of new phenomena, some of them welcome, others unpleasant, distressing, and dangerous to the social structure. These changes mean displacement of labor and capital, and every extensive displacement of labor and capital is painful for the time being. If it be said that "in the long run" they are beneficial to all, it may be replied that men's lives do not last for "the long run." "The short run, if the expression may be used, is often quite long enough to make the difference between a happy and a miserable life."* Every new invention which renders former skill of no account is extremely painful to skilled laborers and their families, who see their industrial and social station thereby lowered. Improvements have often been foolishly resisted, but artisans have in this respect shown only common human traits. Lawyers have as strenuously, and far more successfully, resisted reforms which would have diminished their fees.

Sudden Riches.—The abuse of freedom on the part of those at the same time strong and unscrupulous has been a fruitful cause of trouble. There may have been an unusually numerous class of those at the same time strong and unscrupulous, because manifold changes have suddenly enriched poor people, and often by mere chance, as in the case of owners of oil lands, natural gas lands, and farm lands where cities have sprung up. Now it is a great strain to a man's nature to subject him to the temptations involved in new and sudden acquisitions of material power, and inferior natures have not been able to endure it. Parvenus have given a demoralizing example of soulless, materialistic lux-

* Cannan's *Elementary Political Economy*, Part II, § 15, p. 92.

ury, and other inferior natures have tried to ape them in their extravagance. Thus has arisen a race in display which has promoted speculation, fraud, and embezzlement. Probably also the hardest employers, who have most aggravated social troubles, are to be found among the new-rich.

Confusion of Private and Public Business.—The improper extension of private activity to public spheres, as in the case of gas supply, electrical service of all kinds, and railways, may be mentioned as a fruitful cause of problems. Vast increase of wealth stimulated egoism, and as every one was bent on his own concerns few stopped to inquire into the proper lines to be drawn between public and private enterprises. Mistakes easily made are with great difficulty remedied. The railway and the steamship have brought us many good things, and the railway advocate who recently entitled an article, "Are Railways Public Enemies?" asked an absurd question. Nevertheless, they have brought much evil with the good, and are the cause of perplexing problems. The domination of private corporations and the seizure by them of public property without just compensation are a further cause of uneasiness and anxiety.

For the relations which exist in modern society, for all these new and heretofore unknown conditions, we require new laws, new institutions, and new ideals in legislation.

2. The New Importance of Capital.—It may be well enough on account of its special significance to single out one recent development for more particular treatment, and that is the new force indicated by the word capital, and brought out still more clearly in the expression "capitalistic production." It is this new force which has created modern socialism. It is not meant that capital never existed before. It manifestly always existed, because capital simply means an accumulation of products of past toil which may be used for purposes of further production. What is meant is that as a separate, distinct, and mighty force capital as it exists to-day is something new. Capital is the point about which social discussion largely turns, and the phrase "capital and

labor" is, in some connection or another, continually on every body's lips. Yet it is said that the rallying cries for and against capital would not have been even understood in the Middle Ages. It may be asked, "How can this be?" The truth is that no one attacks capital in itself, and no sensible man deems it necessary to defend the existence of capital in itself. The socialist who leads a crusade against "capital" is as much in favor of the use of capital as any one else. Socialists wish to extend the use of capital. But capital, accumulations of past toil in the shape of food, shelter, clothing, and particularly tools and implements, like railways, locomotives, steam-engines of all kinds, telegraph and electric plant, and the like, while it increases the production of goods marvelously, has become a disintegrating force. Differentiation has accompanied industrial development. It is the present capitalistic mode of production which is called in question. The capital, that is, the tools, are owned by one class and the labor is furnished by another class. Now, as we have two distinct classes in production, disputes over the division of goods produced by those two classes are certain to arise. The finished product being given, the more one class receives the less remains for the other, and it is mere sophistry to claim that the interests of the two can be perfectly identical. The diversity of interests which manifests itself in very real industrial conflicts is an inevitable part of that system which assigns labor to one class and capital to another. It has already been remarked that in earlier times this separation did not exist. It was obviated by a multitude of contrivances. Slavery was one, for that united in the same hands labor and capital. Serfdom was another and closely allied one. Craft-guilds were another mode. Manufactures were carried on in the Middle Ages by labor and capital organized together in these guilds, and during their best period the results were satisfactory, and harmony prevailed in the main. There was a gradual progression from apprentice to journeyman and from journeyman to master owning his tools, and all grades

worked together. The apprentice lived with the master, and frequently, after passing through the grade of journeyman and presenting his masterpiece, married the daughter of the master. The very word manufacturer a hundred years ago meant one who toiled with his own hands. Adam Smith speaks about growing rich by employing a multitude of manufacturers, by which he means simply skilled artisans. Custom has been a powerful factor in maintaining industrial peace in the previous centuries of the world's history. Custom regulated prices and wages, and was often so fixed and settled that it was taken as something almost as much a matter of course as the laws of the physical universe.

Plans for Uniting Labor and Capital.—We have already seen that nature was the dominant factor in the earliest economic stages. Labor is a minor factor; and capital, except in the most rudimentary form, does not exist. As industrial civilization gradually develops, the power of man as seen in labor gradually gains a greater and greater ascendency over wild nature. Labor is assisted by tools and implements always connected with it, and scarcely thought of as existing apart from labor. Labor is the pivotal point of production. Time passes. Tools and implements are evolved which are a thousand-fold more efficient than those of older centuries, but a thousand times more costly. What formerly required a year is now done in a day; but many must work together, and great wealth must own the tools. Those helps in production which are represented by capital are no longer mere appendages to labor and subordinate to labor. They become dominant, and when they become most powerful they are owned by a distinct class, the capitalists. Capital thus is the pivotal point of modern economic life, and capital causes trouble because it is a separate force. It pulls apart men and divides them into sharply pronounced classes. This explains the socialistic definition of capital. "A negro," says Carl Marx, the great German leader of socialism—"a negro is a negro. In certain relations he becomes a slave. A cotton-spinning machine is a machine for spin-

ning cotton. It becomes capital only in certain relations Capital is a social relation existing in the processes of production. It is an historical relation. The means of production are not capital when they are the property of the immediate producer. They become capital only under conditions in which they serve at the same time as the means of exploiting and ruling the laborer." That is to say, Marx limits capital to economic goods in the hands of employers at a time when these goods, accumulated by past toil, have assumed an importance never before known in the world's history. Questions of production on a large scale and on a small scale turn on relative efficiency of capital under various forms of organization. The great problem of the future organization of industrial forces centers in questions connected with capital. The old methods of production have gone never to return. How shall the benefits of the old be united with the advantages of the new? There is a widespread belief that labor and capital must again be united, but differences arise when the question of method is raised. Many think the problem can be solved along existing lines by savings banks, building associations, and the acquisition by laborers of shares in the corporations which employ them. Others hold that special efforts should be made to induce laborers to put their small savings together and to acquire capital to employ themselves. Let us say a thousand dollars capital is required for each laborer in a certain kind of business, then a thousand laborers would require one million of dollars; a very large sum, but when it is divided into a thousand parts it by no means appears hopeless. This is what is meant by co-operation as ordinarily understood: the supply of capital by laborers who are to manage their own business, or, at least, to select their own managers. Others, who do not believe that the obstacles in the way of self-management can be overcome, look to a voluntary sharing of profits by employers with their employés; a method which has been successfully adopted by many capitalists recently, and which thus to an extent unites the interests of labor and capital.

Still other reformers, who do not believe that voluntary agreement can ever bring about joint ownership of capital, look to the power of government to establish this. These are the socialists. Various reforms will be discussed at length hereafter. It will be seen, however, that all the projects mentioned turn upon discussions of capital, and that all those who advocate these projects want to make the laborer at the same time a capitalist. It is trusted that this discussion has made clear what is meant when it is said that capital has become a new force.

3. **Possibility of Improvement.** — Economic science has shown us the possibility of better things for the masses, and we cannot rest quietly with things as they are. It is impossible. Our responsibility for conditions which have been mentioned is something we feel in spite of ourselves. We may deny it; we may ask indignantly, "Am I my brother's keeper?" But down deep in our hearts and consciences we feel this responsibility, and even while denying it we show that we feel it by our acts and by our conversation. As Schönberg well says: "Our economic life is a social structure for which men are responsible, and its improvement, its formation in the manner best for the well-being of the whole body of society, is one of the weightiest problems of nations. This task becomes more difficult the higher the economic stage of development and the greater the nation. It becomes so difficult in time that a special science—political economy —was developed to aid in its solution."

4. **Higher Ethical Standards.** — A fourth cause of social problems is clearly related to the third. It is the progress of religion, in particular of Christianity, and the development of humane sentiments in all classes. Things trouble us now which one hundred years ago we would have taken as a mere matter of course. The contradiction between things as they are and our social ideal is painful.

Some passages from Sir Henry Maine's *Village Communities* will make us understand the significance of the progress of Christianity. Sir Henry Maine seeks an explanation for

the fact that what he regards as economic principles are not universally received. By economic principles he means self-seeking in economic matters: asking the highest price obtainable for salable commodities and purchasing commodities at the lowest price, or buying in the cheapest and selling in the dearest market. Sir Henry Maine evidently approves of self-interest as a supreme factor, but he notices that a moral feeling common in mankind rebels against what he styles and what are erroneously supposed to be economic principles. The explanation of the reluctance with which self-interest as supreme guide is accepted is historical. The "market" was originally neutral ground lying where "the dominion of two or three villages converged." These were the village communities in which custom rather than competition regulated prices, but in the market all went as strangers, and for the market the idea of "sharp practice and hard bargaining" obtained. "Here, it seems to me," says Sir Henry Maine, "the notion of a man's right to get the best price for his wares took its rise, and hence it spread over the world." Then, after further comments on the growth of "market law," he illustrates as follows the survival of older ideals: "The repeal of the usury laws has made it lawful to take any rate of interest for money, yet the taking of usurious interest is not thought to be respectable, and our courts of equity have evidently great difficulty in bringing themselves to a complete recognition of the new principle. Bearing this example in mind you may not think it an idle question if I ask, What is the real origin of the feeling that it is not creditable to drive a hard bargain with a near relative or friend? It can hardly be said that there is any rule of morality to forbid it. The feeling seems to me to bear the traces of the old notion that men united in natural groups do not deal with one another on principles of trade. . . . The general proposition which is the basis of political economy made its first approach to truth under the only circumstances which admitted of men meeting at arm's length, not as members of the same group, but as strangers. . . . If the

notion of getting the best price for movable property has only crept to reception by insensible steps, it is all but certain that the idea of taking the highest obtainable rent for land is relatively of very modern origin. The rent of land corresponds to the price of goods, but doubtless was infinitely slower in conforming to economical law, since the impression of a brotherhood in the ownership of land still survived when goods had long since become the subject of individual property. So strong is the presumption against the existence of competitive rents in a country peopled by village communities that it would require the very clearest evidence to convince me that they were anywhere found under native conditions of society. . . . It is notorious that in England, at least, land is not universally rack-rented.* But where is it that the theoretical right is not exercised? It is substantially true that, where the manorial groups substituted for the old village groups survive, there are no rack-rents. What is sometimes called the feudal feeling has much in common with the old feeling of brotherhood which forbade hard bargains." †

Let us now endeavor to understand the significance of these qualifications.

Political Economy and Ethics.—Political economy is supposed by some to be the science of "sharp practice and hard bargaining." It is held to assume the existence of sharp practice and hard bargaining and to justify both, as, on the whole, Sir Henry Maine does. Yet we see that these so-called economic principles could arise only when men met as strangers, and that even up to the present time they are incompatible with the feeling of brotherhood. We may be assured as often as one pleases that it is creditable to "drive a hard bargain with a near relative or a friend," but it is of no avail. There is within man an ethical feeling, which has

* Rack-rent is the same thing as competitive rent. It means simply the highest rent which can be obtained. The ordinary city rents in the United States are rack-rents.

† *Village Communities*, Lecture VI.

grown up as a result of intuition combined with historical experiences, and which has been clarified by religion, telling us that in our economic life as well as elsewhere we must seek to promote the welfare of our neighbor and brother. This ethical feeling is not to be lightly regarded, for it is the best product of centuries of striving of the best men. Now Sir Henry Maine looks to a disappearance of this feeling of brotherhood for the triumph of the "market" where only sharp practice and hard bargaining obtain. It may be that the first effects of modern improvements in the means of communication and transportation have been to destroy or rather greatly to weaken the feeling of brotherhood, and old local groups have doubtless been broken up and their members scattered. It has become easy to wander off to any quarter of the world. But still further improvements in the means of communication and transportation, especially, perhaps, the national and international postal systems, are drawing all parts of the world closer together than ever before, and instead of a local group of brothers to whom all strangers are aliens the fraternal feeling is extending and embracing all men. With an extension of fraternalism there is at first a great weakening of the feeling, but economic bands and the progress of Christianity, which teaches that all men are brothers, are rapidly strengthening it. An economic world-union of brothers is in the process of formation, and this explains a large part of our anxiety and uneasiness with respect to social conditions. It is of no avail to say that business is excluded from the domination of ethical principles, for it is precisely in our economic life that ethical principles of any real validity must manifest themselves. It is only in an imperfect condition of society that sharp practice and hard bargaining can ever appear to men to be morally right. There is a very general determination to make all departments of social life conform to ethical principles, and this is what is meant by the phrase used by the Christian, "The world is the subject of redemption."

Absolute and Relative Deterioration of the

Masses.—We have examined certain general causes for the existence of socio-economic problems. Accompanying each of these a multitude of forces may be at work aggravating or mitigating troubles. A deterioration in the economic situation of the masses may be a cause of discontent and agitation, and this deterioration may be of two kinds. It may be absolute or relative. Absolute deterioration means conditions poorer in themselves without regard to the economic situation of others or the changed requirements of new times. Absolute deterioration is the exception, but still it is not so uncommon as is generally supposed. Changes involving displacements of labor and capital injure large numbers, and of these many never regain their old position. Economic evils when of a certain magnitude tend to increase spontaneously, as it were, and to aggravate themselves. Children are not educated, a lower standard of life is taken, and progress ceases. This absolute deterioration has, during the last fifty years, been exceptional, though not so in earlier ages, and we have no warrant for the hypothesis that in the future it will not again become common, unless special efforts are made to prevent it.

Relative Deterioration.—A relative deterioration is far commoner. This means that large sections of the population have not kept pace in their economic progress with the advance of wealth on the one hand, on the other with the development of their rational wants and aspirations, to say nothing of the craving for mere luxuries which has been stimulated by the lavish expenditures of the new-rich. We are here concerned with higher demands of people, and, provided these take a right direction, they are to be welcomed, for they are a condition of civilization. Missionaries among degraded heathen find it necessary to awaken wants, even if for mere ornaments, in order to incite the savages to action, and this is the first step in progress. Every succeeding step in civilization is accompanied by new wants, and unless these are awakened civilization comes to a stand-still, as seen among portions of the Canadian French in the Province of

Quebec, Canada. Professor Drummond speaks of the few wants of the Africans as an obstacle in the way of the development of their country.

Wants and Civilization.—This has a bearing on many present problems in the United States. We do not want among us a people with few wants and no aspirations. They can only serve as a drag on the progress of American civilization. At the same time not all wants are legitimate or desirable. Wants are graded, and as man advances material wants ought to give way to higher social, mental, and spiritual wants. Materialism indicates a dangerous tendency of wants in the United States to-day. What is needed is not to try to check the growth of wants, but rather to direct the current into proper channels.

CHAPTER IX.

SOME GENERAL FEATURES OF THE ECONOMY OF THE MODERN NATION.

Three characteristic features of modern economic life are to be found in the relations which it bears (1) to freedom, (2) to ethics, and (3) to the State. These will be examined briefly in the order named.

1. **Economic Freedom.**—Economic freedom must be regarded as merely relative. It has been absolute only in that condition of anarchy in which savages have lived previous to organized government. A re-introduction of absolute liberty would mean a return to primitive anarchy, and any idea of realizing it is a mere Utopia. This freedom is relative. Legal restrictions are exceptional; in particular, such legal restrictions as are felt to be burdensome, because, as Sir Henry Maine has shown, obedience to law is in civilized nations unconscious. Law has to such an extent formed us that we for the most part spontaneously obey it. We cannot move without law. It is a condition of the existence of modern civilization. Law makes it possible for us to live our lives in security. Do we own a house? That implies law. Do we go to business every day in a street-car? The construction of street-car lines is always made possible by laws. Do we read telegrams? We can do so only because law has made possible the existence of telegraph companies. Do we send and receive letters? It is through an institution, the creature of law, owned and operated by the government. But, after all, this is not felt to be a limitation of freedom. It is only in this state that freedom can be realized, as has been shown by a distinguished American writer, Dr. Mulford, in his work, *The Nation*. Yet nearly all laws

carry with them a "Thou shalt" and a "Thou shalt not." Restrictions which do exist are now general, and in the interest of the whole people, not of a few privileged individuals or classes. Their aim as a whole is to prevent an abuse of liberty; to keep the strong and cunning from injuring others, thus to increase real liberty.

Restrictive Laws May Increase Real Freedom.—The way in which restrictive laws often increase real freedom may be illustrated by an occurrence in Baltimore. The barbers of that city wished to close the barber-shops on Sunday. One barber could not close his shop unless all did the same, as he would be likely to lose regular customers. A voluntary agreement was not felt to be sufficient security for Sunday observance. The barbers accordingly raised several hundred dollars to secure the passage of an ordinance compelling them to close their own shops. They were successful, and thus the law enabled them to carry out their own desires. They were enabled to do what they pleased, and thus restrictive legislation increased freedom. The writer has frequently heard a photographer in New York who did business on Sunday lament grievously the necessity for Sunday labor, and express a willingness to contribute one hundred dollars to secure the passage of a law closing all photograph galleries. It is thus seen that restrictions to liberty arise outside of the law, and that the law may increase liberty by helping us to remove these restrictions.

Increase in Government Regulations.—We speak continually of the increase of freedom, and imagine often that we have been moving in the direction of no-government. It is probable, however, that laws were never more numerous nor more far-reaching in their consequences than to-day. Let us take the law under which national banks are to-day organized. We consider that law as an excellent one, and never speak of it as an infringement on liberty. Yet every step in the life of a national banking establishment is taken according to law. The amount of capital is prescribed, the manner of investment of a part of the capital is rigidly prescribed,

and the investment of the whole of it is limited, the size of each share is prescribed, the amount which must be paid in is prescribed, the officers to be elected are prescribed, the voting power of shares is prescribed. After the bank comes into being it is ordered five times a year, and four of these times without previous warning, to publish a minute statement of its condition in the local press, and examiners may without warning be sent from Washington to inspect its books. It is necessary to examine into these phenomena. It may be said that the laws are now neither less numerous nor less powerful than formerly, but wiser. They construct a framework within which we willingly move.

Laws no longer Special but General.—Laws formerly were often special and not general, and aroused animosity because they did not bear on all alike. The laws formerly authorized A. to do what B. was expressly forbidden to do. A. might follow the trade of a carpenter, while B. was excluded. C. might establish a bank, but D. would be thrown into prison if he attempted to do the same. Laws of the last century and previous centuries were individual in their application and became oppressive. Banks serve again as an illustration. Early in this century, in all of the States of the American Union, it was necessary for any body of men desiring to engage in the banking business to secure a special legislative charter. Now any body of men who comply with the laws for the formation of banking institutions may organize a bank. The restrictions in the laws are of a severity that would not have been tolerated fifty years ago, but they bear on all alike; they are framed in the interest of the people as a whole, and are not felt to be oppressive. Laws have not been abolished, but exclusive privileges have been, and this is the peculiar triumph of the nineteenth century in legislation. We have established the principle that legislation must be general and not special.

What is Freedom?—It is well in this connection to reflect on the real nature of freedom, the absence of restraint on our actions. Freedom is negative. It may be compared

to an empty vessel. Its value depends upon what we put in it. Absence of restraint in itself can hardly be called a good in itself. It may be a curse or a blessing. It gives opportunity for the development of our faculties to a full and harmonious whole; yet, if we are not ripe for it, it may involve our degradation. Children are not fit for it, because under the controlling influence of a higher authority their development can better be secured. Not all nations are fit for it. The Declaration of Independence was the assertion before the world that we were fit for free and uncontrolled self-development. American democracy means the ripeness of Americans for political freedom.

Economic freedom manifests itself in five different ways:

a.) **Freedom of labor** in three respects: 1. *Freedom of person*, as seen in the abolition of bondage and the establishment of the principle of legal equality. This freedom of the person has become universal in the civilized world only within the present generation. 2. *Freedom of movement and acquisition.* This means the right to settle where you please and to follow any pursuit you please, so far as any special and individual legal restrictions are concerned. Legal restrictions of a general nature framed in the interests of the public welfare exist every-where, and they are, on the whole, continually increasing in severity. A recent decision of the Supreme Court of the United States has declared that they violate no provision of the Federal Constitution. Some of these restrictions, as upon those engaging in certain occupations, like banking, have been mentioned. To engage in any one of many kinds of business it is necessary to comply with certain prescribed rules and regulations. The business of a plumber in Maryland and elsewhere is an example. The business of an apothecary is another, and in other countries the requirements are severe, and they should become severer in all our States. Professional pursuits, like the practice of law and medicine, serve as further examples. Formerly, that is, during the Middle Ages, it was necessary to belong to some guild, or trade corporation, to engage in any one of

the leading industrial occupations, and these associations regulated, generally under legal supervision, the conditions under which businesses should be followed.

The Freedom of Movement for working people has become general over the civilized world only within the present century. It did not exist in England when Adam Smith wrote his *Wealth of Nations.* It is interesting to note that restrictions on the freedom of movement arose in connection with the laws for the relief of the poor. Each parish was anxious to avoid the care of the poor of other parishes, and many parishes endeavored to escape their fair burdens by sending away their poor to be supported by other parishes. Consequently, it was provided that a workingman should be required to demonstrate his ability to support himself without help from the parish before he was allowed to settle, or that he should bring certificates from his former parish authorities by which these bound themselves to become responsible for his maintenance should he become a public charge, and for his removal to his former home. This was so difficult a thing to do that it kept a large part of the laboring population stationary in the parishes where they were born. These laws regulating residence were called laws of settlements, and of the English law of settlements Adam Smith goes so far as to say: "There is scarce a poor man in England, of forty years of age, I will venture to say, who has not in some part of his life felt himself most cruelly oppressed by this ill-contrived law of settlements." *

"**Tramp Laws.**"—It is well to notice recent revivals of restrictions on freedom of movement of wage-earners. The abuses of this freedom in the United States have led in many of our States to the passage of "tramp laws," which imprison a man who wanders about the country without financial resources. Such a person is called a vagabond, and in cases may be punished even by a year's imprisonment in a penitentiary. In Southern States like Georgia he is put in the chain-gang, and compelled to work for the State. There

* Book I, chap. x, Part II.

can be no doubt that the public suffered severely from vagabonds, and that women in rural districts were insulted and even assaulted by unprincipled tramps. Property was destroyed and stolen. Incendiarism was in many instances traced to tramps. The European laws of settlements grew up in efforts to correct real evils, and in precisely the same manner we are erecting barriers against freedom of movement without, perhaps, appreciating their full significance. While the evils inflicted in portions of the country were intolerable, we should in matters like this proceed with caution.

Many workingmen in America claim that they have been cruelly oppressed by tramp laws; that they have been misused and even imprisoned for efforts to seek an opportunity to gain an honest livelihood. There can be no doubt that innocent poor people have suffered under tramp laws. Workingmen have felt this so keenly as to demand in some of the platforms of their political parties the abolition of all tramp laws, which is undoubtedly going too far. Labor organizations, like the International Cigar Makers' Union, for example, have partially remedied the evils of these laws and encouraged the free movement of labor by providing funds for traveling members out of work. Labor papers and labor organizations help to keep workingmen informed of opportunities where work may be procured, and thus still further promote the free movement of labor.

Foreign Immigration.—New limitations of the freedom of international movements of workingmen are noteworthy. The anti-Chinese legislation of the United States and Australia is designed to keep from these countries cheap foreign laborers, and is the most marked example of this recent revival of ancient restrictions. The United States law which forbids Americans making contracts with foreign laborers to come to this country to work is another example. Efforts are being made still further to restrict free international movements of working people.

3. *The freedom of contract with respect to labor* is the third form in which the freedom of labor manifests it-

self. This means the legal equality of employers and employés in labor contracts. This in a general way may be said to date from the French Revolution, although it was not universally introduced in civilized countries until much later. Adam Smith and the men of his day expected from it beneficent results, which have been at best only partially realized. Philosophers of the latter part of the eighteenth century assumed the natural equality of all men, and held that oppressive inequalities were the result of legal institutions. It has become evident, however, that their assumptions were not valid. Economic inequalities place the ordinary employer in a very different position from the ordinary employé, and thus the natural tendency is for the industrially strong to show their superiority in free labor contracts. The industrially strong in all countries are consequently ardent champions of the freedom of the labor contract. Working-men attempt to equalize conditions preliminary to the arrangements of labor contracts by the formation of labor organizations, in order that, as capital speaks solidly through one representative, as, for example, the president of a street-car company, labor may also present itself as a unit through some chosen leader.

Restrictions on Labor.—The freedom of the labor contract exists nominally in countries like France, Germany, England, and the United States. Every-where, however, there will be found restrictions on the right of combinations of laborers to make their own bargains in their own way, to work or to refuse to work, to select their own companions during work, and the like. These restrictions are nowhere so numerous on capital combinations. The effect of recent judicial decisions in the United States has been still further to restrict the freedom of the labor contract where organizations are concerned, and to-day this freedom is more limited in the United States than in England, probably not than in France, Germany, or Italy.

b.) **Freedom of Landed Property.**—Freedom of landed property means the right to buy and sell landed property

without legal restrictions. This again is a new right, and it is not fully recognized in England to-day—where a great deal of the land is entailed. It was introduced in Prussia early in this century by the reforms of the statesmen Stein and Hardenberg.* It is sometimes called free trade in land. It does not exist with respect to lands granted by act of the last Congress to Indians, for they are inalienable for twenty-five years. Among the Jews it was not known. Jehovah was the one in whom the title to their land was vested, and the usufruct was granted to families who could part with it only temporarily. It was returned to them in the year of jubilee. It is in this connection instructive to read the Mosaic legislation with respect to land. There are those who think that the nineteenth century has yet much to learn from Moses. Many, in fact, are dissatisfied with existing land laws, and think that free trade in land as now known does a vast amount of needless harm, and is a robbing of the masses for the benefit of the few. This opinion is not shared by the majority of the best thinkers on socio-economic topics. Perhaps there is a wide-spread feeling that land laws ought to be amended more or less, without, however, in the main changing the fundamental principles on which they rest.

c.) The Freedom of Capital with Respect to Loans.—By the freedom of capital with respect to loans is meant the abolition of prohibitions of interest and of restrictions on the rate of interest. The Mosaic legislation prohibited all interest, for usury in older literature means not merely excessive interest but any interest at all. Moses allowed the taking of interest from strangers, but in certain special cases it was unlawful to take it even from them. The greatest philosophers and statesmen of classical antiquity, and of the Christian era until modern times, have been opposed to the taking of interest, and the laws have reflected more or less perfectly their views. Recent opinions have favored interest, and it is now almost

* See Seeley's *Life and Times of Stein*, vol. ii, p. 20.

universally taken on loans, and a man like John Ruskin, who habitually makes loans without interest, is regarded as very peculiar, if not erratic. But the rate of interest is still generally regulated and limited. Any rate of interest is legal in England, but restrictions probably exist in all other countries. Restrictions on the rate of interest were abolished in Germany, but were re-established on account of the abuses of the freedom. A fixed limit was not placed to lawful interest, but the judges have been given a wide discretion to determine what is, under the circumstances of the particular case, excessive, and therefore usurious, interest.

Restrictions on the rate of interest on loans exist in most of the States and Territories of the American Union. There are, according to a recent statement, only eleven out of the forty-seven States and Territories where no limit is fixed to the rate of interest, and thirteen where no penalty for usury exists.

d.) **Freedom in the Establishment of Enterprises.**— The right of individuals to establish enterprises on complying with general regulations is of a far more ancient date than the right of combinations of individuals to engage in industrial undertakings. These combinations of individuals usually take the form of joint-stock associations, generally called in the United States simply corporations. The right of free establishment of corporate enterprises on compliance with provisions of general laws is a new right, barely a generation old. It did not exist in England until 1855, and in some of our American States it dates from an earlier period, and in others it is of later origin. It dates in Germany from the formation of the empire in 1871, and in Austria it does not exist yet. It formerly required a special law to enable a body of men to associate themselves for productive purposes, especially if the liability of associates was limited. The older idea in the United States and elsewhere was that combinations of capital equally with combinations of labor were dangerous; but there was this difference: special laws

were passed from time to time authorizing the formation of associations of capitalists, but not of laborers. Each fresh application for a charter of incorporation was presumed to be examined on its merits. If a body of men desired to form a bank, the legislature was supposed to examine into their financial and moral fitness for the enterprise, perhaps also into the need for such an enterprise, and to grant a charter only when all the conditions of the contemplated undertaking were satisfactory. It never worked well, especially in more modern times. With the best will the task transcended the powers of legislatures, and the best will was often wanting. Bribery on an immense scale was frequently resorted to, and charters were also made a part of the system of political spoils. Thus early in this century it was considered as an unwarrantable presumption for the Democrats in New York State to expect a bank charter when the Federalists were in office, and when the Democrats were in office the Federalists fared no better. It was only by stratagem that Aaron Burr secured a bank charter when his political opponents were in power in New York. He obtained a charter for a water company, one clause of which, innocent enough at first glance, really gave the company power to engage in the banking business. The system of special charters has been for the most part abandoned, and is in some parts of the industrial field being still further limited. Conditions are severer and more far-reaching than formerly, but are general in their application.

Restrictions on the Establishment of Enterprises.—Important exceptions to the modern rule must not fail of notice. The right to supply certain services to cities, like light, water, and transportation of passengers by street-car lines and elevated railways, is secured by special charter, act, or ordinance, and often an explicit monopoly is granted with what must in the nature of the case be a *de facto* monopoly. All of the evils connected with the old general system of special charters is connected with special privileges granted to parties to engage in these enterprises, and many new evils.

They are in one way or another connected with most of the evils of municipal politics. As free competition is impossible in the case of electric lights, gas, water, and street-car and elevated railway service, it has seemed to many that the only way to correct these evils is to abolish the corporations engaged in such undertakings, and that can only be done by turning over these services to the municipalities themselves; and this opinion is shared by the author. A remarkable movement in this direction has already begun, and the results thus far experienced have been most beneficial. Water supply is, fortunately, nearly every-where in the complete control of cities. Gas-works are mostly owned by municipalities in Germany, and quite largely and to an increasing extent in England. The gas consumed in American cities is mostly supplied by private parties, Philadelphia, Richmond and Alexandria, Virginia, and Wheeling, West Virginia, being exceptions. But there is every reason to expect an increase in the number of cities owning and operating gas-works in a near future. Electric lighting plants are often owned by cities, and English laws look to the ultimate acquisition of private establishments. Twenty or thirty American cities, as Painesville and Xenia, Ohio; Chicago and Champaign, Illinois; Bay City, Michigan; Dunkirk, New York; Easton, Pennsylvania; Lewiston, Maine, own and operate electric lighting plants, and with the most satisfactory results, the general cost for arc lights of two thousand candle-power burning all night being from twelve to twenty cents per night, whereas private corporations charge from forty to sixty cents, and even more.

New limitations on the freedom to engage in railway enterprises are now being enacted in the United States, while the freedom of enterprise has in other countries for some time been abolished. Parties in Massachusetts who desire to build a new railway must show that there is a public need for the undertaking, and a similar law has been urged upon the authorities of New York State. This prevents a great deal of waste, in doing away with the construction of

parallel and other useless lines of railways, but as it adds to the value of existing railway property by removing possible competitors it would seem that it is only proper that in the form of taxes on gross revenues or otherwise the railways should be made to pay for the special privileges they enjoy after the abolition of freedom in the establishment of railway enterprises. It should never be done until public control over these enterprises has been established on the firmest basis.

It may, perhaps, be laid down as a general rule that when for any class of business it becomes necessary to abandon the principle of freedom in the establishment of enterprises this business should be entirely turned over to the government, either local, State, or federal, according to the nature of the undertaking.

e.) **Freedom of the Market.**—The freedom of the market means the right to buy and sell where one pleases. This is another new right and one not every-where recognized. We accept this principle in the United States with respect to domestic trade, but not with respect to foreign commerce, on which we lay heavy taxes for the express purpose of restricting it. Restrictions on domestic trade were the rule rather than the exception in the last century, not only in the American States but in Europe. Our Federal Constitution of 1789 established in the United States the principle of freedom of domestic trade, and reforms accompanying or following the French Revolution led to its general establishment elsewhere. England abandoned the policy of restricting foreign commerce in 1846, and it was then expected by free-traders, as those are called who believe in the principle of freedom, that other nations would speedily follow her example. Those anticipations have not been realized, but, on the contrary, new restrictions have since then, especially in recent years, been established, and old restrictions sharpened.

The cause has been the policy of protection, which will be discussed hereafter. Protection achieved a great triumph in the abandonment of free trade principles and the estab-

lishment of a high tariff by Germany in 1879, and the presidential election of 1888 in the United States was by many regarded as a triumph of protection.

Advantages of Competition.—The advantages of general freedom of the market are more talked about than the disadvantages, and are consequently better understood. Under the system of freedom capital and labor tend to flow to places where they are most needed, and that is generally where they are most productive. The absence of restrictions spurs the industrially gifted on to activity in enterprises, as the rewards of success are enormous. Competition develops new forces, and reveals new resources of economy, excellence, and variety of products. The modern man, like the modern trotter, has been developed in the race-course. Every one must be active and alert or suffer loss. Progress in technical processes has been rapid, and the formation of new enterprises has been encouraged.

Disadvantages of Competition.—When we come to speak of the disadvantages of the modern system of freedom, that is to say, of competition, it occurs to us that the moral atmosphere of a race-course is not a wholesome one. Competition tends to force the level of economic life down to the moral standard of the worst men who can sustain themselves in the business community. Adulteration of products introduced willingly by the unscrupulous is followed reluctantly by a higher type until it becomes general. Long hours, child labor, and labor of married women in stores, in factories, and even in mines underground, are all brought about in a similar manner. Cheap prices must be met by cheap prices. A tendency to reduce wages is likewise explained. On the other hand, when the industrial situation favors labor, competition is apt to raise wages, especially where well-managed labor combinations exist.

Quality also often suffers under the race for cheapness. The report to the German government on the exhibits of Germany at our Centennial Exhibition in 1876 was "*schlecht und billig*," bad and cheap.

Bubble companies and all sorts of swindles defraud and degrade multitudes, and the good suffer with the bad. Actual monopolies oppress the people worse than former legal monopolies, because comparatively few men have as yet learned to distinguish between the industrial functions of private individuals and corporations and those of public bodies, such as city, State, and Union.

The danger of very unequal distribution of wealth, and wide gaps between social classes so that they are to one another like foreign nations, are evils closely connected with those already enumerated.

Social Evils also Economic.—It may be argued that some of these evils, while social, are not economic, and that others are purely moral, and that consequently they do not fall within the premises of political economy. As has been said, however, the economic department of social life cannot be separated from other great social life-spheres. Social and moral evils react on wealth-creation, and that in a very simple manner. The chief factor in production is the human factor, and whatever affects this will certainly influence wealth-creation.

We must remember in all this discussion that the production of goods is only a means to an end, and to show that a practical measure will create wealth is not enough to commend it. The main question is, What effect will it have on the entire life of the nation, also of humanity? The true starting-point in economic discussions is the ethical community, of which the individual is a member.

Remedies for the Evils of Economic Freedom.—We are not helpless in the face of economic evils connected with freedom. Combinations of interested parties, like working-men in their labor organizations, also capitalists in their chambers of commerce, merchants' and manufacturers' associations, and the like, can set themselves against the evils under which we suffer, and some of the worst of them can be corrected by laws, and thus the moral level of competition can be raised. Sunday work serves as an example. Also

laws directed against the employment of children under a certain age in factories. These laws when enforced by factory inspectors and other suitable agencies do not destroy competition. A. and B., former rivals, are still left to compete with each other, but under altered conditions which apply alike to all. The moral level of competition has been raised.

There is a danger of the injurious development of vast establishments and the crushing out of the small man under the system of freedom. Co-operation can do something to arrest this evil. It has already achieved considerable results in England, Germany, France and the United States, and is destined to accomplish more in the future. A great deal can be accomplished, not by resisting powerful economic currents, like the tendency of production to concentration, but rather by guiding and directing the current in such a manner as to minimize the evils connected with it and to maximize the good.

It has been laid down as a general rule by an English writer that experience has demonstrated two things: the advantages of freedom in trade and commerce; the necessity of restrictions in the field of labor and in behalf of labor.

2. Ethics and the Economic Life of Nations.—It is recognized now that there should be no contradiction between ethics and economic life, and that ethics demands a truly civilized life for each individual; demands that so far as this is possible each should be supplied with economic or material goods so as to satisfy all his reasonable wants and to give opportunity for the completest development of all his faculties. It is further demanded that the production of goods should so be conducted as to minister to the advancement of the producers and to the advancement of society in general. There has been a return of political economy in this respect, as in so many others, to older and sounder conceptions. We have gone back to the Greeks, notably to Plato and Aristotle, who subordinated all economic inquiries to ethical considerations. They never asked merely, "How

can a nation become wealthy?" but "How can the economic institutions and arrangements of a nation be so ordered that the highest welfare of all citizens may be best promoted?" This mode of thought was common, it is scarcely too much to say, to all great writers on socio-economic and political topics until a wave of revolutionary materialism in the last century swept over the world, and since then there has been an effort to divorce ethics and economics, which practically means the subordination of ethics to economics. The higher social life-spheres have been asked to minister to the lower, the feet have been exalted above the head, and men discuss social questions, like child labor and Sunday work, in parliaments and legislatures in such a way as to show that the main thing in their minds is the greatest possible wealth-creation, and that they think humanitarian considerations—very likely called sentimentalism—ought to bend to that. It is necessary to show that popular enlightenment will add to the productive powers of the community, or will help to protect wealth against depredations, in order to secure appropriations for public schools; and any thing so far removed from the lowest material considerations as art and music is considered in most instances as an improper field for the fostering care of government, at least in the United States, and politicians turn away disdainfully from the highest interests.

Ideals for Economic Progress.—Happily there seems to be a revival of truer conceptions, and, as said, there is a tendency to go back to the best thought of earlier periods. Several economists have presented social ideals to which economic life should, so far as may be, minister. Four of these will be presented herewith. The following is quoted by Professor Fawcett in the sixth edition of his *Political Economy:* "That only true and most supreme happiness—the development of the human faculties to a harmonious and consistent whole."

Professor Schäffle, a German writer, in his answer to the question, "What is the best distribution?" presents a social

ideal. "It is," says he, "that distribution of income which brings society as a whole, and in all its subdivisions, nearest to perfection." *

Professor Wagner, the distinguished Berlin professor, gives us this ideal of industrial society: "Large national resources and large national incomes, and at the same time such a distribution of the same that even the less favorably situated may be certain of a sufficient income to satisfy all necessary wants and to enable them to participate in the enjoyment of the more important higher goods of our age." †

A well-known Belgian professor of political economy presents this ideal in his treatise on political economy: "The complete and harmonious development of every faculty."

3. Economic Life and the State.—The third and at present the last feature of economic life to be mentioned is its relation to the State.

When John Stuart Mill attempted to enumerate and classify the functions of the State he found that only one thing was common to them all, and that was public expediency. These are his words: "The admitted functions of government embrace a much wider field than can easily be included within the ring-fence of any restrictive definition, and . . . it is hardly possible to find any ground of justification common to them all, except the comprehensive one of general expediency."

Utility the Criterion of State Action.—There seems in the nature of things no more reason why the State should do one thing rather than another except that it is more useful. If both are equally essential to the public welfare there is no more reason why the State should punish crime than why it should construct and operate a steam railway. There is great confusion of thought on this subject, and the duties of the State will be referred to again; but it may be asked, Whence the source of the authority of the State to do any thing at all? There is an ancient theory according to which

* See Schönberg's *Handbuch der Politischen Oekonomie*, 1st edition, vol. i, p. 435. † *Ibid.*

it is assumed that all citizens have entered into contract relations with one another and have established government. It can be scarcely necessary to discuss this fiction at present, so generally has it been discarded by thinkers. No one has seen this contract, and all the elements of a contract are wanting. Any thing so vague and indefinite as the assumed contract could not stand as a contract in a court of law for one instant. Sometimes the writing which the Pilgrim fathers signed on the *Mayflower* in 1620 establishing civil government is adduced as an illustration of a contract origin of government. But the Pilgrim fathers then originated no new government. They were already living under a government, that of England, to which for over a century their successors professed loyal adherence. They did not claim to establish a new sovereignty. Even had they done so, is a contract once signed to bind men forever? Are the living to be slaves of the dead? Great political thinkers, like John Stuart Mill of England and Bluntschli of Heidelberg, say that the validity of contracts of a governmental nature, as, for example, treaties, should be limited to one generation, say thirty-five years. But if a contract is signed, whence comes the authority of the signers to sign a contract binding themselves and others to maintain and obey government? The creature becomes superior to the creator, and may call on the creator to lay down his life, or may take it against his will. But this absurdity will not be considered further. Granted that contract is the origin of government, how can it be shown that government has any right to do one thing more than another except on grounds of expediency? What other indications of the nature of the contract have we than the laws, constitutions as fundamental laws included? Would not then the functions of government change with changes in the laws and constitutions?

If utility be regarded as the justification of government of course the whole cause of controversy falls away. It is simply necessary to show that a thing is useful to justify it. If God is the source of authority and the justification of gov-

ernment, its ultimate ground, then let some one show any other limitations than expediency which He has established to the functions of government.

Government and Democracy.—The modern conception of the State is that it is a co-operative community, carrying with it the power of coercion, and thus differs from voluntary co-operative associations. The State is a coercive co-operative commonwealth. The people act through the State and its various subdivisions and minor civil divisions. "We, the people," establish through our federal government a post-office. "We, the people," do other things through our government of New York State, or Maryland, as the case may be. "We, the people," do still other things through our agents, the municipal authorities of New York, Boston, or Baltimore. An older conception, inherited from European despotisms, pronounces State action "paternalism," but those who call such a thing as the establishment of gas-works by a municipality "paternalism" have never grasped the fundamental idea of modern democracy, which is that government is not something apart from us and outside of us, but we ourselves. Government activity is not dreaded as, under the influence of ideas disseminated by French revolutionary leaders, it was early in this century. Governmental action is one of the most powerful factors promoting civilization, and in a country like Germany we observe a high civilization, every part of which is largely the result of governmental activity.

Individual Enterprise also Necessary.—On the other hand, it is felt that the domination of any one principle in industrial life must be disastrous. Accordingly, outside the field of governmental activity, we desire a field for the industrial activity of individuals and of voluntary combinations of individuals in partnerships, co-operative associations, joint-stock corporations, and some will say—while others will dispute it—for combinations of corporations, as in the newest development of industrial organization, the trust.

Some of the Functions of Government.—The pur-

pose of the State then is, in its broadest terms, to promote the welfare of the people, and, more in detail, to establish and regulate economic institutions, such as property and inheritance, to separate public from private property, to protect persons and property, to establish the conditions of contract, and to enforce contracts under these conditions; to promote education, morals, science, art, to guard the public health, to administer charities, to raise the level of competition by prohibiting those forms of it which are disastrous, to manage—itself, or through some subdivision like the municipality—natural monopolies, such as gas, electric light, water supply, street-car lines, steam railways, etc., and to guard certain permanent interests of the nation, such as the maintenance of a sufficient area of forests, suitably selected. These things private individuals cannot do, or cannot do so well, and it may be maintained without fear of successful contradiction that, in recognition of this, civilized nations are, to an ever-increasing degree, performing these functions.

Forestry.—It is not desirable in this place to dwell upon these several functions. Treatises on political science explain the reason why many of them should be performed. The expediency of other functions has already been explained, and more will be said about them in later chapters of this work. A few words, however, may be said about forestry in this place. All governments are taking upon themselves the ownership and management of forests. New York State has acquired forests in the Adirondacks, and has entered upon forestry, having in her employ foresters. Bills have been brought before Congress which look to management of forests as a permanent function of our national government. Switzerland, France and Germany are increasing the area of governmental forests. The reasons are very obvious. First of all, it may be said that rational forestry requires plans to be made for one hundred and twenty years in advance. Trees must be planted to be felled at the expiration of that long period, for it takes that length of time for them to grow to their full size, and when they are allowed to grow to full

size the amount of timber needed can be grown on the smallest amount of land. Private individuals will not, however, invest money from which they expect to receive no return for over a century. Second, forests ought to be cultivated on a vast scale, on land especially adapted for forests—land often good for nothing else—and certain great regions, like steep mountain sides and sources of streams, ought to be entirely covered with forests. Their climatic influences are generally believed to be important, and forests with their leaves and undergrowth certainly prevent rainfall from rapidly rushing down mountain sides and deluging the country below. Forests prevent a waste of soil. It is said that where forests have been rashly removed from mountain sides in Baden, Germany, and in Switzerland, it will take three hundred years to repair the damage. Soil must be slowly formed again. Private individuals will not select for forestry vast tracts of land properly situated. In America farmers have quite generally kept a few isolated acres in woodland, but this is not what is wanted. Very likely the land kept in trees is better adapted for something else, and forests may not be needed at this particular point. Third, it requires highly trained scientific men to take care of a forest. It is necessary to go through high schools, to follow a course for several years in a forestry academy, and then to supplement this by an apprenticeship of several years in practical work in forests. Only a State owning tens of thousands or hundreds of thousands of acres can train up and organize a properly qualified body of scientific foresters. The difference between a forest which grows up wild and one which grows up under a proper system of culture is so great that the trained eye can detect the difference nearly as far as sight can reach, and it is probably safe to say that it takes twice as much land to supply a given need when forests grow up of themselves as where a rational system of forest culture obtains. Fourth, when forests are cultivated in large tracts, as they should be, covering perhaps an entire mountain, very considerable quantities of game can be grown, and this forms an important element in the

food of a people. Our old private system of forests in America results in almost a total loss of game in the settled parts of the country. Fifth, although forests do not pay private individuals, the profits of Belgian forests, for example, not exceeding, it is said, one per cent. on their selling value, they do pay the people as a whole, on account of their general beneficial effects.

More might be said on this topic were not space too limited. It is manifest from this that petty measures which some of our States are introducing, like tax exemption for planting a few trees or covering even a few acres with trees, will never accomplish any thing of economic significance. Even "arbor days" are of no account save for their educational value. On that account, and on that account alone—as well as perhaps for the sake of another holiday—they should be encouraged.

Public and Private Responsibilities.—It is seen in general that there is no limit to the right of the State, the sovereign power, save its ability to do good. Duty, function, is co-extensive with power. The State is a moral person. It may be further said in general that the fundamental principle, the basis of the economic life of modern nations, is individual responsibility. It is designed that each grown person should feel that the welfare of himself and of his family, if he has one, rests upon himself. The State enters where his powers are insufficient, or we may express it better in this way: for the attainment of certain ends he finds it advantageous to co-operate with his fellows through town, city, State, federal government, and the performance of public duties as well as private duties is helpful in the development of the individual and of the race. The performance of the true functions of government tends to promote energy and self-reliance.

It will be noted that by far the greater part of economic life, namely, in the main agriculture, commerce, and manufactures, is left to individuals and voluntary associations of individuals. However, wherever mistakes have been made,

and private parties have been allowed to encroach upon the functions of the State, these mistakes cannot be corrected in a day. It requires long, laborious, and patient work to remedy evils of this character. On the other hand, it is always easy for the State to give up any industry if it is desirable, and to turn it over to private parties.

Read H. C. Adams's *Relation of the State to Industrial Action*. This is undoubtedly one of the best treatises ever written in the English language on the functions of the State. A work by the late gifted English economist, W. Stanley Jevons, *The State and Labor*, may also be consulted with profit on the subject with which it deals.

CHAPTER X.

POLITICAL ECONOMY DEFINED.

Derivation of the Term.—We have now surveyed the characteristics and growth of economic society, and are in a position to inquire more carefully into the nature of the science which deals with this society; namely, political economy. The term political economy is derived from three Greek words. Economy is derived from *οἶκος* and *νόμος*; *οἶκος* in this case meaning household goods, and *νόμος* law, custom, or usage, government or regulation. Political comes through the corresponding Greek adjective from *πόλις*, and this means state as well as city; for in Greece cities were of such preponderating importance and influence in the States that the same word was used for both, just as on account of the relatively greater significance of the rural districts we have come to use land and country to denote the entire State. Economy, then, means, etymologically, the regulation of the household, or housekeeping, and it can be used to designate the science or art of housekeeping, although a separate word like economics would really be better. Political economy is, then, the housekeeping of the State, or the management of the goods in or pertaining to the State, or of the goods of the citizens so far as they have any public significance, which happens whenever private economies enter into reciprocal relations. Political economy, then, means the economic life of the nation, and afterwards the science of national housekeeping, although here again, if obstinate usage did not stand in the way, another expression like political economics would really be preferable. National housekeeping is apt to sound strange to English ears, but it is sanctioned by as high an authority as Mr. James Russell Lowell, and it seems desirable

that it should become familiar. It is an expression full of meaning, and if rightly understood an excellent definition of political economy. It corresponds to the German word "*Volkswirthschaftslehre: Volk*, nation, *πόλις* — *wirthschaft*, housekeeping, *οἶκος*—and *lehre*, science, *νόμος*.

Political Economy Defined.— *We may define political economy in its most general terms as the science which treats of man as a member of economic society.* It deals, then, with social relations, like other branches of sociology; but these social relations which form the subject-matter of political economy are of an economic or industrial nature. Nearly all social phenomena have their economic aspects, so that it may at first appear that there is no limitation to political economy whatever save the bounds of sociology. Such is not the case, however, for the limitation of political economy is found in its peculiar stand-point. This may be brought out by some such definition as this: *Political economy is the science which deals with social phenomena from the economic stand-point.* Social phenomena connected with the production and consumption of material good things are the province of political economy. The political economist deals with religious phenomena, with the social phenomena of art and literature, with urban sanitation, and any number of similar subjects, but always as in some way or another connected with the production and consumption of material good things. The physician and economist will both discuss child labor and excessive hours of toil in over-heated factories; but the specialty of each will be apparent in their utterances. Different classes of men who concern themselves with society do not treat of separate classes of social phenomena, but treating of the same phenomena from various points of view the labors of each should be supplemental to those of all the others.

A more detailed definition of political economy is on some accounts desirable, and one is presented herewith which is taken from a German author, Professor von Scheel, and slightly modified. It may be properly prefaced by reminding the reader that the word economy is technically used to

express the entirety of those actions of a person which relate to the acquisition and employment of material goods for the satisfaction of human wants. We may then say that POLITICAL ECONOMY DESCRIBES THE RELATIONS OF PRIVATE ECONOMIES TO ONE ANOTHER AND THEIR UNION INTO LARGER ECONOMIC COMMUNITIES (AS TOWNSHIP, CITY, STATE), TAKING INTO ACCOUNT THEIR ORIGIN, THEIR GROWTH, AND THEIR CONSTITUTION, AND PRESCRIBING RULES FOR THAT ORDERING OF THESE RELATIONS BEST CALCULATED TO MEET THE DEMANDS OF THE DEGREE OF CULTURE ALREADY ATTAINED AND TO BE ATTAINED IN THE FUTURE.

Distinction Between Private and Political Economy.—This definition marks off the sphere of domestic economy from that of political economy. Political economy considers social matters. It does not attempt to give directions for the acquisition of wealth by a single individual, but to inquire into the nature of those phenomena which appear when individuals in their efforts to gain a livelihood and in their employment of material goods enter into relations with one another. It seeks to explain these phenomena both by mere description and by the discovery of causal relations connecting them together; and it aims to show how the true welfare of a nation may be promoted in the acquisition and employment of material good things. Technological treatises on agriculture, mining, manufactures, electricity, show how an individual may enrich himself. This distinction must not be misunderstood. Technical sciences and political economy both treat of society, and both treat of individuals, but the technical sciences subordinate the social stand-point while political economy subordinates the individual stand-point. Political economy, in seeking the welfare of society, of course must aim to promote the welfare of the great mass of individuals and families in the nation and in the world, but that is something different from the welfare of a particular individual or even of the great mass of men at a given moment. Political economy looks at questions from the point of view of the general and permanent welfare.

Political Economy Simpler than Private Economies.—It may be well in this place to make clearer some of these points by various illustrations. It might seem a far easier thing to tell how John Smith could secure his economic welfare than how the nation of which he is only one member may become prosperous, but such is not the case. Accidental and disturbing causes and individual peculiarities make it extremely difficult to formulate general principles for an individual private economy, but these irregular elements disappear when we observe a large mass of individual economies. Mortality serves as a good illustration. No one can say when John Smith will die. The chance element is so pronounced as to make prediction impossible. But when we are called upon to make calculations upon mortality among several millions of people at a given period in a given country it becomes a comparatively easy matter. Individual irregularities become social regularities, and calculations for great masses of facts of this kind can be made with so much accuracy that vast business transactions like those connected with insurance can with safety be based upon them. In a nation we can count upon a regularly recurring amount of inundations, drought, grasshopper plagues, and similar catastrophes, accidents to the persons of inhabitants involving a diminution of labor power, of disease and death, even of theft, robbery, and other forms of wickedness, vice, and pauperism. We make allowances for all these wealth-annihilating factors, and consequently they do not disturb our generalizations. Given a country like the United States, a fruitful soil and all other desirable physical properties, a population on the whole thrifty, industrious, temperate, moral, intelligent, and enterprising, a tolerable government whose laws are in the main obeyed, and we know to a certainty that the country, as a whole, must in time become very wealthy, and in its economic life things as they occur at the same time, that is to say, phenomena in their co-existence, are observed to fall into great classes which may be described and explained, and things as they occur one after

the other, or phenomena in their succession, are likewise observed to do so in some kind of regular order, which also may be described and explained.

Let us suppose that we seek to know how John Smith may acquire wealth. He follows general principles, but disease and death at an early stage of his career destroy all his property. It is not necessary to suppose so extreme a case. The land of the country is on the whole fertile, but in some way or another, possibly by inheritance, John Smith may be the owner of a piece of poor land on which he is obliged to struggle for a bare subsistence. His farm may be fertile, but an overflow of a river, such as has not been known for a century, sweeps away his cattle, buildings, and the year's produce, and cripples him industrially in so serious a manner that he never recovers from it. Instances like the following have fallen under the author's observation. John Smith is a clever artisan, receives good wages, accumulates a small property, which he is induced by an unscrupulous man to exchange for worthless Western lands. He returns to his work for his old employers to begin life over again penniless. Others may learn from his experience to be more suspicious of plausible men with Western lands, but John Smith has lost his accumulations. These illustrations can be continued indefinitely by the reader, and observation of what is going on about him every day will furnish him with numberless concrete examples. They all make clear the statement that it is far easier to say how a nation may become prosperous than how a particular concrete individual may secure economic well-being.

Private not Identical with Public Welfare.—It is said that political economy seeks the welfare of society. The prosperity of individuals may be secured at the expense of society, for it by no means follows, as superficial writers have assumed, that he who gains wealth has added that amount of wealth which he secures to the total wealth of the country or of the world. Lotteries serve as one of the best illustrations. They are one of the most disastrous

institutions, both as regards the economic welfare and the morals of a community. Large numbers in the industrial community, especially, perhaps, among the poorer classes, as servant-girls in Germany, may be turned away from safe and remunerative investment of their small earnings, in the aggregate large, to a feverish pursuit of chance-gain. Society as a whole loses, but proprietors of lotteries have been known to gain large fortunes.

When American cities have given away or been robbed of valuable franchises for street-car lines individuals have gained, but the people as a whole have lost. Baltimore street-car companies pay nine dollars out of every hundred they collect for the maintenance of public parks, in addition to State and city taxes. Unscrupulous politicians, for reasons best known to themselves, but not difficult to divine, have desired to relieve street-car companies of this very proper although inadequate payment for valuable privileges enjoyed. This would add to the wealth of individuals, but would injure the people of Baltimore as a whole.

Other countries, like France and Austria, have limited all charters for railways to periods of less than one hundred years. These have been accepted under conditions that, without compensation, the entire property should, at the expiration of the period, revert to the people in their organic capacity; that is to say, to the State. Our general principle of unlimited charters has enriched enormously a few individuals, but the country as a whole is correspondingly poorer. One other illustration must suffice. The city of Chicago owns and operates an electric lighting plant, and the cost of each arc light of two thousand candle-power burning all night is said to be about fifteen cents a night, interest on the investment included. If Chicago paid fifty cents a night per arc light to a private corporation, as does the city of Baltimore, a few individuals would grow wealthy, but it would be at the expense of the city. It is the business of the political economist to describe the best means for the promotion of the welfare of the people as a whole. In a certain sense, the

political economist is to the general public what the attorney is to the private individual.

Political Economy Regards Permanent Interests.—It has been said that the political economist must have regard to permanent interests. He may call upon the present generation to make a sacrifice for future generations, as did the city of Heidelberg some time since, when it passed over to the system of "high forest-culture;" that is to say, when it decided to allow a large part of the extensive forests it owns to stand until the trees had attained their full size, and that means, in some cases, one hundred and twenty years. As has been already stated, that is best for the permanent interests of the city and nation, but it put aside all prospect of financial return for several generations.

Political Economy both a Dynamic and a Static Science.—The definition of political economy which has been adopted calls attention to the actual condition of industrial society in the past and to its desirable constitution or structure in the future. Political economy embraces both the statics and dynamics of society. The one treats of the interrelations of existing economic phenomena, including their causal forces, and the other embraces a discussion of the progressive movements of economic society. The one considers this society as it is, the other inquires how it has become what it is and what is the course of its evolution at present. Statics treats of forces at rest or in a state of equilibrium; dynamics deals with changes and the law of changes, and what John Stuart Mill calls their ultimate tendencies.

It may be remarked in this place that one of the chief errors of the uninstructed, in the past as well as at the present, consists in the failure to regard political economy as a dynamic science at all; and this has led to a false and dangerous view of society. It induces men to try to stop the growth of society, which is about as safe as to seal tightly the cover of a boiler of boiling water, and to try to prevent thereby the expansion of steam. Change we must have;

the only question is, What will be the nature of the change? Growth can be guided and directed by intelligence, or by what Professor Lester F. Ward, in his *Dynamic Sociology*, calls teleological action.

Importance of our Social Ideals in the Study of Political Economy.—This naturally leads to a further remark about the nature of economic opinions. At the outset of any earnest study of political economy we should make up our minds as to what we really desire for society. And in this respect let us be honest with ourselves. Do we regard all human beings as brothers, and have we a sincere longing for the welfare of all? Do we think that the earth and all the riches of art, science, literature, and industry are for all, to be enjoyed by all so far as practicable in proportion to their real needs? Do we, in short, take the ethical view of political economy? Or do we, on the contrary, perhaps without a full consciousness of the fact, hold that some are born to subserve the gain of others? Do we think that only some of us, and not all of us, have talents which we ought to improve; that is, to develop in the most complete manner possible all faculties, physical, mental, moral, spiritual? Are we indeed striving to protect ourselves, our friends, or our class in special privileges? As political economy has to do with what we desire, that is, as it is teleological, the one aim or the other will be felt in all economic discussions, in particular in so far as they relate to practical measures. This is why political economists in all countries are necessarily divided into two more or less antagonistic groups, differing chiefly in practical aims, and as that part of political economy is more concerned with such aims, in the dynamics of political economy.

Ethical Aims an Essential Part of Economic Activity. — Political economy, then, distinctly includes within its province an aim. It does not tell us merely how things are, but also how they ought to be. Economists deal with human activities, and these must have a purpose. A purpose is not something accidental, but a true essential part

of the activity. Then we may compare various purposes at the present time and pronounce some praiseworthy and others reprehensible. We can speak of actual purposes and of desirable purposes. The development of economic life brings out clearly the significance of ethical aims in industrial society. What exists now as a mere matter of course was once a future ideal, or, to use more technical language, the "Is" includes what was once the "Ought-to-be." The acquisition of material goods by robbery has for ages been held to be legitimate, and the abolition of plunder as a source of individual gain could once among savages have been only an ideal. The acquisition of material goods by force of arms has during the greater part of the world's history been held more honorable than honest toil, and in the general peaceful pursuit of economic well-being we have in civilized nations only recently reached an ethical goal longed for by the best for many generations. Slavery has until within thirty years been a part of the industrial life of the United States, and only in the present generation have we realized in its abolition an ethical goal in our economic life. Further illustrations will on reflection occur to the reader. Ethical purposes for the future exist now as they have always existed, and they will mold our economic life.

An American economist, Professor F. H. Giddings, arrives at the same conclusion from a somewhat different starting-point.* Political economists deal with the actual, he says in substance, but the actual contains the social ideal, because in striving for the realization of a social ideal we strive to make that general which already exists as something exceptional. Living men go before us as luminaries to show us the way. They are our ideal.

The "Is" embraces the future "Ought." This in itself answers the question whether political economists should deal merely with what is, or also with what ought to be. The two cannot be separated. Also, merely to know what is in all its bearings itself often shows what ought to be, as

* See his *Sociology and Political Economy*.

in the case of the evils of child labor, and itself suggests a remedy for evils. Another reason for this conclusion is this: we want to know what ought to be and how it can be, and who can tell us so well as he who has studied what exists and the processes by which it came to exist? There is no separate science of the economic "ought," and it certainly does not at present seem desirable to separate it out as something distinct from political economy.

"Is Political Economy a Science?"—Political economy has been spoken of as a science, and thus far no attention has been paid to the question so frequently asked, "Is political economy a science?" No propriety in the question is perceived. Science means systematized knowledge with regard to a body of related phenomena. It is ordered knowledge with definite bounds, taken out of the great sea of knowledge because it pertains to groups of facts conceived as forming a whole, as therefore more closely connected with one another than with other groups of facts. Science is a branch of learning. It has been said that a body of knowledge is a science only when it carries with it the power of prediction; but there can scarcely be such a thing as any branch of learning worthy of a name and of the attention of men which does not carry with it more or less power of prediction, how much cannot be known until it is complete and finished. Sciences may differ in this respect as in others; some may be very imperfect, others more advanced, and still others in a condition yet nearer perfection.

A use of the word science is frequent, in England and America, which implies a reproach to both nations. It is used as equivalent to natural science. We may thus hear a school-girl say, "I am studying science," when she means some branch of natural science. It may not show that we have given too much attention to physical sciences, but it does clearly prove that we have unduly neglected mental and social sciences of all kinds. It is in the minds of some connected with that materialistic view of the world which

refuses to admit the possibility of positive knowledge about things which cannot be seen, handled, and weighed. Why political economy is less worthy to be called a science than biology, for example, is hard to be understood, unless it is simply that it is less advanced toward completion.

Those who read German will find an admirable article bearing on topics discussed in this chapter by Professor Gustav Schmoller in the fifth volume of his *Jahrbuch für Gesetzgebung, Verwaltung, und Volkswirthschaft.* It is entitled, "Die Gerechtigkeit in der Volkswirthschaft." Professor Gustav Cohn has also suggestive remarks which have been helpful to the author in the "Einleitung" to his *System der National Oekonomie*, Kapitel I, "Gesetze der National Oekonomie," s. 69–78.

CHAPTER XI.

OTHER DEFINITIONS OF POLITICAL ECONOMY.

Three Classes of Definitions.—Conceptions of political economy may be divided into three classes, and definitions may be formed to fit each class of conceptions. Writers frequently fail to describe accurately their conceptions of the nature of political economy in their definitions, but they may be divided into classes according to their fundamental ideas respecting the scope and purpose of political economy, whether they have accurately expressed these in their definitions or not.

Writers of the first class regard political economy as a science which has to do with external valuable things or economic goods—that is, with wealth, as that word is used by economists; writers of the second class, as the science which has to do with economic goods in their relations to man; writers of the third class, as the science which has to do with man in his relations to economic goods. The logical evolution is observed. Economic goods are first made the primary thing, and they are treated almost as if their production was an independent process apart from the will of man, one extreme writer going so far as to say that the laws governing the production of wealth would be just what they are if man did not exist. The social relations involved in the production and consumption of economic goods are then considered more carefully, and finally the original process is reversed, and it is distinctly asserted that "the starting-point as well as the object-point of our science is man."*

The definition of political economy found in Mrs. Fawcett's little *Political Economy* may be taken as a fair pres-

* Roscher's *Political Economy*, vol. i of Lalor's translation, p. 52.

entation of the first class of conceptions. It is as follows: "Political economy is the science which investigates the nature of wealth and the laws which govern its production, exchange, and distribution."

The definition of political economy found in John Stuart Mill's treatise may be taken as a tolerably accurate presentation of the second class of conceptions. "Writers on political economy," says Mill, "profess to teach or investigate the nature of wealth and the laws of its production and distribution, including directly or remotely the operation of all the causes by which the condition of mankind or of any society of human beings in respect to this universal object of human desire is made prosperous or the reverse." Social relations are dragged in through a back door, as it were. It is perceived that political economy must concern itself with them, but they are not at once placed in the foreground as the main thing with which we are to deal. Mill's position is perhaps brought out still more clearly in the full title of his work, which is, *Principles of Political Economy, with Some of their Applications to Social Philosophy.* Social philosophy is evidently viewed as something outside of political economy rather than as a larger whole of which political economy is only a part.

Professor Henry C. Adams, of the University of Michigan, in the second edition of his *Outlines of Lectures upon Political Economy*, offers a statement about political economy which may be placed among definitions of political economy as it is understood by those who hold the third class of conceptions, although he himself does not call his statement a definition. It is as follows: "Political economy treats of industrial society. Its purpose as an analytic science is to explain the industrial actions of men. Its purpose as a constructive science is to discover a scientific and a rational basis for the formation and government of industrial society."

While the wording of not all definitions is such as to place them clearly in any one of these three classes of conceptions,

and while all political economists are not true to the conception expressed in their own definition, economists themselves may be arranged, in a rough sort of way, at least, under one or the other of the classes corresponding to the conceptions, and thus divided into three groups. There may be more or less shifting of stand-point and wavering of conception, and certain economists may stand near the boundary line of two conceptions.

The Growth of Political Economy.—The order in which the definitions have been given shows the evolution of our science. It has grown from the first conception to the second, and then from the second to the third, and with this growth the character of political economy itself has changed somewhat. The words political economy do not mean now precisely what they did once. But this evolution of economic science has not been strictly a chronological one. It has been rather a logical one, and the most we can say is that in the main the chronological movement has corresponded with the logical development of the science. Political economists did not adopt definitions of the first class, then of the second, and finally of the third. It may be stated more correctly in this way: Beginning with this century these various conceptions or ideas of political economy have been engaged in a contest. At first definitions of the first class embodied the prevailing conception, then definitions of the second class, and now definitions of the third class. But there has always been some one of prominence to challenge the prevailing conception. Thus, early in this century, Sismondi, the Swiss economist, defined political economy as "the science of human happiness," and Malthus, his friend, the distinguished English economist, subordinated wealth as a secondary consideration to the welfare of man as the primary consideration, opposing those who treated public questions merely from the stand-point of pounds, shillings, and pence. He regarded political economy as the science of wealth in its relations to man, emphasizing strongly the latter part of the conception. While the pre-

vailing conception of political economy at the present time is presented fairly well in the definitions of Professor Adams, Professor von Scheel, and the author, it is also contested by those who adhere to definitions of the first class.

Political Economy and a Natural Beneficent Order.—The first conception of political economy may be traced back to French writers of the second half of the eighteenth century, called the Physiocrats, usually regarded as the founders of the science because they were the first to try to treat national economic life in its entirety in a rounded-out, systematic manner. It is closely connected with ideas concerning a beneficent external order of nature which dominated the political philosophy of the time of the French Revolution. Nature was regarded as a power outside of man, who had drawn up, as it were, a code for the entire conduct of the individual and social life of man. Nature was looked upon as wholly good, and all the evil in the world was traced to man, who, although a product of nature, and good in his essence, yet somehow had managed to act contrary to his being and to otherwise universal law, and had produced all sorts of evil institutions. There was then a constant cry, most loudly uttered by Jean Jacques Rousseau, "Back to Nature." Government was held responsible for most of the sufferings of humanity because it was an artificial product of man's contriving, and hence some wished to abolish government altogether, while others advocated the reduction of its functions to a minimum, and gave as the watchword, "*Laissez-faire*," that is, let alone, do not interfere with this beneficent order of nature. Now space is too limited to permit the author in this place to trace this theory of natural law back through mediæval writers to Roman jurisprudence and thence to Greek philosophy, nor can it here be shown how full of contradictions and absurdities it was, but it will readily be understood how it led to the first conception of political economy. Nature had established laws external to man for the production, distribution, and consumption of economic goods, and it only remained for man to

discover these, and to conform to them in all his actions. Gradually, however, it became more and more apparent to thinkers that the conception of economic goods, or wealth, to employ the more usual term, was itself a subjective term; that wealth, properly speaking, could not exist apart from the needs and desires of man, although material things might, and that the will of man was a main factor in all economic life. It was seen, moreover, that progress consisted not in blind subjection to external natural laws, but in a conquest and subjugation of wild nature. The conception of political economy has accordingly been modified until finally man is made the beginning and end of all inquiries, and nature is regarded as his servant.

The Mercantilists.—Curiously enough, the most modern conception of political economy is a return to an older and sounder one, current before the domination of the political and social ideas of the French Revolution. The economists called the Mercantilists, the forerunners of the Physiocrats, made their inquiries center about legislation and human activity, and to them political economy was the art of the statesman in its economic aspects. The speculations of the Mercantilists culminated in the *Political Economy* of Sir James Steuart, published in 1767, nine years before Adam Smith's *Wealth of Nations*, and in that we find this definition of political economy, in which the old spelling, pointing to the origin of the word, is still retained: "Œconomy in general is the art of providing for all the wants of a family with prudence and frugality. . . . What œconomy is in a family, political œconomy is in a State. . . . The great art, therefore, of political œconomy is first to adapt the different operations of it to the spirit, manners, habits, and customs of the people, and afterward to model these circumstances so as to be able to introduce a set of new and more useful institutions. The principal object of this science is to secure a certain fund of subsistence for all the inhabitants, to obviate every circumstance which may render it precarious, to provide every thing necessary for supplying the wants of the society,

and to employ the inhabitants (supposing them to be freemen) in such a manner as naturally to create reciprocal relations and dependencies between them, so as to make their several interests lead them to supply one another with their reciprocal wants."

The fine historical sense disclosed in Steuart's definition, contrasting with the abstract speculations of the French, should be noticed. Institutions must first be made to conform to the genius of a nation, and then spirit, habits, and customs of the nation must be so modified that new and better institutions can be introduced. It is not possible to disregard the past, and to legislate as if that did not exist.

Different Conceptions of Man and External Nature.—Political economy occupies a middle ground between natural sciences and mental sciences. It deals with man, but with him in relation to external nature, furnishing him with material for goods to supply his wants. It must presuppose the existence of natural physical laws, not at all the product of human volition. Some writers have been inclined to overlook the part of external nature in economic life, and consequently to go to an extreme in their conceptions of political economy. Starting with definitions which overlook man we finally come to definitions which overlook the physical universe outside of man. Professor de Laveleye, in his *Political Economy*, gives a definition which may serve as an illustration: "Political economy is the science which determines what laws men ought to adopt in order that they may, with the least possible exertion, procure the greatest abundance of things useful for the satisfaction of their wants, may distribute them justly and consume them rationally."

Professor de Laveleye himself is not true to his definition, for he discusses many things which do not by any means exclusively pertain to legislation.

CHAPTER XII.

MAIN PARTS OF POLITICAL ECONOMY.

Political economy has become so large a science that it has been found desirable to divide it into parts, each of which is often treated in separate works or volumes of the same work. Sometimes each one of the great parts is treated almost like a separate science. Sociology has been spoken of as a group of sciences. With the evolution of political economy it also is beginning to assume the appearance of a group of sciences, although this evolution cannot go so far on account of the much smaller range of political economy. The connection between the main parts of political economy has so far been well preserved, and their unity in the larger whole rarely escapes the consciousness of the student.

Political economy is most commonly divided into three parts. The first is concerned with general principles. This should properly include an outline review of the entire subject, the parts of which may be further elaborated later. The second part deals with the detailed practical application of general principles, as in the discussion of forests, canals, railways, banks, and the sphere of the State with reference to these economic factors. The third part treats of finance; that is to say, the collection and administration of public revenues, taking up a discussion of the various sources of the revenue, as productive property, taxes, and loans, and entering into an examination of public debts with reference to their origin, growth, management, and extinction.

General Political Economy.—These parts of political economy are given different names. The first part is sometimes called theoretical political economy, but this is objectionable. It is as practical as any part, as practical, in fact,

as the foundation of a house. This first part takes account of such practical matters as the functions of government. But there are certain main facts in economic life more general, more nearly universal than others, and these can be advantageously treated by themselves before certain topics are taken out of their connection for more careful special investigation. This first division of political economy we may call *general political economy*, or *general economics.* Under this head we discuss definitions and general conceptions, land, labor, capital, rent, wages, profit, money, interest, the organization of industry. This part of political economy is nearly all we find in the older text-books.

Special Political Economy.—The second part of political economy may be called *special political economy* or simply *special economics.* When the first part is unfortunately called theoretical political economy this is also unfortunately called practical political economy. This second part is called *economic administration* in the great work edited by Schönberg, "*Das Handbuch der Politischen Oekonomie.*"

Finance.—The third part is always called *finance.*

Other divisions of political economy into main parts are not unusual wherever the specialization of the sciences is carried far. Professor Wilhelm Roscher, of the University of Leipzig, published the first volume of a great treatise thirty-five years ago, and, working on it ever since with German thoroughness and perseverance, has nearly completed the last of his four volumes. The following are the titles of the volumes : 1. *General Political Economy.* 2. *Agriculture and Other Branches of Industry Concerned with the Production of Raw Material.* This includes, among topics discussed, forestry, care of grain, pastures, agricultural laborers, breeding of animals. 3. *Commerce and Manufactures.* 4. *Finance and Care of the Poor.*

Professor Adolph Wagner, of the University of Berlin, published in 1872 the first volume of a revised edition of an older work on political economy, by Professor Rau, of

Heidelberg, who was in his day the most distinguished economist of Germany; and in 1877 he published a new edition of the second volume of the same work. When a later edition of Professor Wagner's revised volumes was called for it became apparent that Rau's name could no longer be retained, because changes in the revision grew so numerous and far-reaching in character that it became substantially a new work. This work by Professor Wagner is still going forward, and as planned it will comprise at least seven volumes, and in all probability more. It is the most extensive as well as the profoundest economic treatise ever written. The work is divided into three main parts, and each of them is subdivided into volumes, as follows: 1. The first main part is general or theoretical political economy. This part is divided into two volumes, the first called *Fundamental Principles*, and the second *General Political Economy, with Special Reference to the System of Private Economies.* 2. The second main part bears the title, *Special or Practical Political Economy*, and is likewise divided into two volumes, the first called *Means of Transportation and Communication*, and the second, *Public Policy, with respect to Agriculture, Manufactures, and Commerce.* 3. Part third is called *Finance*, and is divided into three volumes; namely, first, *Introduction and General Considerations Concerning the Financial Economy of the State;* second, *Fees and General Theory of Taxation;* third, *Special Theory of Taxation and Public Debts.* The third volume of the part on finance will be devoted largely to practical application of general principles.

Of this immense work three volumes, the first, fifth, and sixth, have appeared, and the seventh is at the time of the preparation of this book being issued in parts.

The proper division of an economic treatise seems to be, as already indicated, into a first part, containing a general view of the life of the socio-economic organism in all its parts, and then an elaboration of some of these parts, and in this elaboration the needs of the public will be a guide. Any one of the leading parts of a general economic treatise

could be enlarged into a volume, and this has been done with many of them. This will appear clearer if we examine the subdivisions of treatises on general economics.

Treatises on general economics are quite generally divided into four parts or books, called, 1. Production—that is, the creation of utilities. 2. Distribution—that is to say, a discussion of the ultimate share which each person receives of what is produced; or, as we might perhaps say with a tolerable degree of exactness, the amount of income of the various members of industrial society. 3. Exchange—perhaps, still better, the Transfers of Goods; sometimes also the Circulation of Goods. 4. Consumption of Goods. Part 4, though indicating the purpose for which all economic activity takes place, is sometimes omitted.

If we speak of these divisions of political economy into parts as perpendicular, we could call its division into economic dynamics and economic statics a horizontal division. It cuts across all the others. John Stuart Mill, however, who gives too little attention to economic dynamics in general, has one book on this subject in his political economy. It is entitled, *Influence of Progress of Society on Production and Distribution.* Mill has no book on consumption, but his fifth book is on the *Influence of Government.*

Professor Gustav Cohn has divided his *General Political Economy*, the first volume of an exhaustive treatise, into an Introduction, treating of scientific method, of the relation of political economy to other sciences, of the history of political economy, and of fundamental conceptions, and into the System of Economic Life. The System of Economic Life treats (1) of the Elements of Economic Life—namely, population, nature, labor, capital; (2) the Structure of the Economic Life—including the ordering of the common life, the forces connecting the members of the social body, such as competition, association, private and collective property, the differences in society, and groups in the social body; (3) Processes of Economic Life—namely, production, transfers of goods, and distribution of income.

It will be readily seen that a topic like population can be treated in an independent work, and it has been so treated by Malthus, a great English economist. Land, and the price paid for its use, called rent, may also be treated in an independent work. An American economist, President Francis A. Walker, has written a book called *Land and Its Rent.* Capital, another factor in production, has been made the title of an important work by Carl Marx, the German socialist. The present work follows a plan which is new in some respects, particularly in the division of space assigned to the various topics discussed. The author aims to give his readers an insight into the real significance of political economy, and a general view of the entire ground, whereby it is hoped that many will be led to continue their economic studies further. A large part of the book is, of design, descriptive.

CHAPTER XIII.

ECONOMIC METHODS.

Methods whereby knowledge is acquired are properly discussed in logic, but as a familiarity with logic cannot be assumed, as there is frequent change in logical treatises, and as there is a lack of unanimity of opinion about the proper method for mental and social sciences, a short chapter must be devoted to a discussion of methods suitable for the discovery of economic truth.

Logicians have usually spoken of all methods for the acquisition of knowledge as either deductive or inductive, but recently a third method, the statistical, has been assigned an equal rank, and it has been claimed that the statistical method is the one peculiarly adapted to the study of all the social sciences.

The Deductive Method means reasoning from the general to the particular. The most familiar illustration is this: All men are mortal; John is a man; therefore, John is mortal. We begin with a statement respecting a class, we see that a particular individual belongs to this class, and then we assert that what is true of the class is true of the individual. This is self-evident. This kind of reasoning is often called in colloquial English "putting two and two together."

Inductive Method.—Now, inductive reasoning reverses the process. It finds that certain things are true of an individual which by observation is declared to be a fair type of a class, and then what is true of the individual is said to be true of the entire class. It is seen that John dies. John is mortal. Observation shows that James, Richard, Robert, and others likewise die. Observation as reported in history tells us of no man who has not died. We say then John is

a typical man, and we conclude that all men are mortal. These two methods manifestly supplement each other.

Statistical Method.—But when we mass together large numbers of facts about the life of man as a member of society, in other words, social phenomena, we observe certain regularities among them. No one of them can be taken as a type, yet we can arrange and group them and gather information about them. Suicides serve as an excellent illustration. What could appear to be less regular than the means adopted by human beings to put an end to their own lives? Yet when we study a large number of cases, say thousands, we find that a certain proportion in each hundred will hang themselves, another proportion will poison themselves, another proportion will drown themselves, etc., etc. Likewise we discover a regularly recurring proportion between men and women. We find that a certain percentage will choose a rainy day, another percentage a clear day; a certain percentage will be married, another percentage unmarried.

Mortality in general serves as an excellent illustration, and this has in another connection already been cited. It is not easy to tell whether Robert, aged forty, will die during the next twelve months, but it is easy to tell how many men among a hundred thousand aged forty in a particular country will die. The observation of these regularities in large masses of facts, and the acquisition of knowledge thereby, is called the use of the statistical method.

Deductive School.—Economists during the first half of this century generally made use of what they called the deductive method. They started with a few general propositions afforded them by their own consciousness or by observation of familiar facts, or by other sciences, and sought to explain the economic life of man thereby. One of these general propositions is the assumption that the main motive, almost the exclusive motive, and the only one to be taken into account in reasonings respecting economic life, is self-interest. Manifestly, if we can assume that men

are always actuated by self-interest it is only necessary to find out where self-interest will lead to predict the course which they will pursue. Undoubtedly, this throws a flood of light on economic phenomena and explains many of them.

A second general proposition found in the writings of the older deductive economists is this: population tends to increase faster than the means of subsistence.

A third proposition asserts that capital increases the productivity of labor, and that further accumulations of capital may be made which will increase indefinitely the amount of economic goods annually produced.

A fourth proposition asserts what is called the "law of diminishing returns;" which means that after a certain amount of labor and capital have been applied to agricultural land it does not pay to apply more, because the return will not be in proportion to increased outlay. It may pay to hoe corn three times, but not four or five times. The economist who formulated these propositions said that political economy is not eager to gather facts, because these general propositions explained all facts of the socio-economic organism.

The deductive method is also called *a priori*, and we often hear of *a priori* economics.

The Historical School.—About the middle of this century there arose in Germany a stronger and more vigorous protest against the deductive method than ever before. Isolated voices had been raised against it previously. An English economist * had, about 1830, claimed that we could not out of our own inner consciousness with the aid of a few general propositions explain the complex phenomena of the socio-economic organism, and said if we would know how men live we must "look and see." Other economists had given utterance to similar opinions, but they had not been heard. But three gifted men in Germany, Carl Knies, Wilhelm Roscher, and Bruno Hildebrand, all university professors, coming forward with what they called the *historical*

* Rev. Richard Jones, in his book, *The Distribution of Wealth and the Sources of Taxation.*

method, made quickly an impression in their own country, and their influence has gradually spread throughout the civilized world.

We ought rather to speak of an *historical school* than historical method. The term is used in a broad sense. It is better than inductive, because it includes much more than induction. The name historical is not accurate, but it is taken from one prominent characteristic of the school. Men of the historical school, believing in observation, regarded the past experience of man in history as a valuable source of information. Men had, they claimed, been conducting experiments in their economic life during their entire past existence on this earth, and they had recorded the results of their experiments with more or less accuracy. History was considered then as a proper field for observation. At the same time it was never claimed that history alone was sufficient to enable us to construct a science of political economy. Other nations were to be studied, and hence we find the expression comparative method. Generalization from large inductions of facts was advocated, and we accordingly encounter the term statistical method.

But this is not all that is meant by the tendency designated as historical school, less accurately described as historical method. The expression historical school meant, and still means, many things. Perhaps it primarily signifies a purpose or even a philosophy of life. The ethical aim comes first. Most marked among the characteristics of the historical school of political economy is the supremacy ascribed to ethics. To the demands of ethics, it is felt, should the entire economic life be made subservient. The historical school means a broad, progressive spirit. It carries with it a different view of the State. The attitude of the philosophers of the period of the French Revolution is rejected. The State is held simply to mean a co-operative commonwealth. The historical school in its spread over the world may be termed a wave of humanitarianism. It has both a negative and a positive meaning. It means rebellion against the old, at

first, naturally, strongly pronounced, and a constructive effort toward improvement.

This prepares us better to return to modern methods. The historical school is catholic as to methods. All methods are used. Undoubtedly a limited place is given to deduction in the old sense. The old school started with general propositions, called in logic premises. The new school believes that it is an essential part of political economy to gather those premises from which conclusions are drawn.

It may be said, then, that modern political economy uses these methods: deduction, induction, observation and description, statistics. Deduction and induction have already been discussed, and examples will be afforded by the subsequent chapters in this book. *Deduction is and should be used, and especially for certain classes of phenomena where other methods fail.* International trade may be cited as an example. It is difficult to separate and interpret the facts. England has prospered, let us admit, under free trade. Was free trade the cause? Certainly other forces have been at work tending to make England a wealthy country. France has prospered under protection, and so has our own country. Was protection the cause? How difficult to answer! We seek aid from known general principles.

Insufficiency of the Deductive Method.—At the same time we must recognize that deduction is in a sense a dangerous method. Granted premises, conclusions will follow, and there is a likelihood that men will choose premises even unconsciously which will lead to the conclusions desired by them. The factory legislation of England, designed to protect the laboring population of that country, serves as an illustration. It might have all been reasoned out deductively. Little children, almost infants, were employed for long, weary hours in factories and in mines underground, and physicians asserted that the rising generation was being ruined physically and morally. Now how did this happen? It has already been explained. A few employers led, and force of competition compelled others to follow them

in their bad practices. We know enough about human nature to convince us that it is a hopeless task to inspire all members of an industrial class with lofty motives and firm purposes, and that consequently the moral plane of competition must be raised by the strong arm of the law. Yet the so-called inductive process, which in this case means experimentation and observation, was the method which taught economic truth. As a matter of fact, reforms were carried through by an appeal to ethical sentiment. As stated, this entire scheme of reform can now be reasoned out deductively, but at the time deductive economists almost unanimously opposed it, talking all sorts of nonsense about the ruin of England's industries from foreign competition if child labor were abolished and hours of labor reduced, and claiming that the entire profits of capital came in the last half-hour of toil, etc., etc. Observation has convinced economists that English factory legislation was a good thing, and that it has established the industrial supremacy of England on a firmer basis than ever.

So many premises are possible, and so many combinations of premises, that deduction is apt to mislead. When used, conclusions should always be carefully tested by actual experience, and we must be ready not merely to test conclusions but to draw conclusions from facts even in cases suitable for deduction, because human passion has such play in deductive processes. Deduction could not convince the hard hearts of English Gradgrinds that factory legislation was a good thing, but facts as hard as their hard hearts were arguments which they knew not how to resist.

Observation and description have a large place in political economy. Logical processes have too exclusively dominated a great deal of political economy. More plain, simple description is needed. Labor organizations, co-operation, and profit-sharing experiments, the workings of systems of taxation, are to be observed and described. Institutions and customs are to be observed and described; also the effects of desires on production. Nothing is so little cultivated in

general as the habit of observation of economic and, in general, social phenomena. Text-books, written by those whose little learning was a dangerous thing, have aroused prejudices and have provided men with a set of shibboleths, terms and phrases, by which they decide all practical problems of statesmanship in an offhand way, much more easily than by patient inquiry. Words have been taken for knowledge, and progress has been obstructed. If readers of this book will keep their eyes open, their minds and hearts open for new truth, and consecrate themselves to truth, they will advance rapidly in economic knowledge. A brief outline or sketch of a science does positive harm when it leaves readers with the impression that they are well-informed. The aim of this book is not to leave readers with a satisfied feeling, but to awaken curiosity and to stimulate them to further study; in particular to arouse in them habits of careful and accurate observation of the economic life of all classes of men, hours of labor, wages paid, housing of the laboring class and other classes, various taxes paid in one's own town, the relation of local taxes to State taxes, the methods of granting franchises to corporations for the use of the streets, comparsions between the cost of electric light when the electric lighting plant is owned by the city and when it is owned by private corporations, etc., etc.

Analysis.—The statistical method has been described, and it remains to say a word about analysis. Analysis would seem to be an aid to other methods rather than an independent method. It consists in separation of complex phenomena into parts so that they can be better understood. Economic knowledge is impossible without careful analysis. One of the most frequent causes of error is a lack of analysis, or, as is more commonly said, a failure to discriminate. Monopolies serve as an illustration. Some are good, others bad ; some are good under certain conditions and bad under others ; some are brought about of necessity by the inherent properties of certain kinds of businesses ; others are artificial products which can be abolished. Nevertheless, monopolies

are usually judged "in a lump." They are praised or blamed indiscriminately, and legislators too often desire to treat them all alike. Analysis enables us to separate monopolies and arrange them in groups so that each may be discussed and treated in an appropriate manner.

Read *Statistics and Economics*, by Professor Richmond M. Smith. The monograph on "Statistik" which Chancellor von Rümelin contributed to Schönberg's *Handbuch der Politischen Oekonomie* should also be consulted by those who read German. Morselli's work on *Suicide*, in the International Scientific Series, gives illustration of statistical method in that subject.

CHAPTER XIV.

ECONOMIC LAWS.

"**Natural Laws.**"—Laws in the economic world have been much discussed, and there has been a parade of "natural laws" which we have been called upon to admire and to obey. Now the word natural may be used in two senses. If nature includes man and every thing in the universe, it is mere tautology to say that every thing which happens is natural. But nature is generally conceived as including every thing except man's mind and its voluntary activity as manifested in his acts. By natural laws are meant laws precisely like those of the external physical universe. If this sense of the term be employed, it may be said that there are no natural laws in political economy. Why should there be? Political economy deals with a different order of facts from the natural sciences, and its laws are of a different kind. The marvelous progress of the natural sciences, combined with what may be called a wave of materialism which in recent years has passed over us, has led to an undue exaltation of natural laws, and people come forward triumphantly with the claim that they can demonstrate the existence of natural laws in the business world or even in the spiritual world. All that they appear to accomplish, however, is to show analogies between certain orders of facts. It is no disparagement either to the social organism or to the religious life to admit frankly that they are not governed by natural laws, that is, the laws of the external physical world.

"**Laissez-Faire.**"—What are these natural laws of the socio-economic organism? Let some one enumerate them. When this has been attempted no progress has been made

beyond a few truisms and self-evident propositions which political economy never established. One writer speaks of the maxim *laissez-faire*, the theory of non-interference and passivity of government, as natural law. "It carries with it," says this writer, "the revelation of our science, and announces the presence of those natural laws which it is the mission of the science to study. At the same time this maxim is the first-fruit of this revelation." Unfortunately for the theory of natural laws, this maxim, *laissez-faire*, has generally been abolished both by science and practice in all civilized lands. It is thought that it performed good service at the time it became powerful, but that it is no longer suited to the needs of the modern world. Imagine physicists as renouncing the law of the attraction of gravitation as no longer adapted to our world!

Self-Interest.—But have not men always been actuated by self-interest? Were not the Medes and Persians thousands of years ago, like the Americans of to-day, moved by a desire to advance their own interests? Is not here a natural law? at any rate—and this is usually meant—a law which acts with the regularity and certainty of the physical universe? By no means. Self-interest is not a constant force which can be accurately measured. It leads one man to cheat, another to steal, it leads a third to underhand business practices which just keep within the law. It prompts a fourth to deal honestly, to describe his wares as they are, and to sell them at a "fair price," and at the same price to all. Self-interest induces some men to smuggle, but induces others not to smuggle. We observe the proportion between smugglers and non-smugglers. Now let us change the laws, reducing or raising taxes on imported commodities. Lo! the proportion between smugglers and non-smugglers has changed. Some adulterate their goods; others do not; some manufacturers do all they can to secure the passage of laws regulating and restricting child-labor; other manufacturers oppose the passage of these laws and break them after they have come into force. Then we hear about real self-interest

and apparent self-interest. Doubtless there is such a difference, but must not a man be moved by different motives than self-interest to perceive his real self-interest? Some claim that self-interest may be compared to the attraction of gravitation. They say that other forces act counter to the attraction of gravitation, as the friction of the air or the force of the wind. Yet all these forces do act, and the motion which takes place is a result of their combined action—a resultant. This is not the case with human motives. We choose, and one motive displaces another. Again, back of motives there are laws and institutions on which motives act. How will self-interest act when custom fixes prices? how when competition fixes prices?

Social Laws.—It must be apparent that we have to do with laws different from those which govern the physical universe. Our laws may be called relative laws, or historical laws, or, if one pleases, social laws. They are the result of the peculiar constitution of our politico-economic life, which is made what it is by the action of human desires and passions and efforts upon the physical universe governed by its own laws. The will of man is a main factor in all politico-economic phenomena, and this will must be regarded by students of society as itself a creative energy, introducing new forces. We can observe certain regularities and tendencies in all social phenomena, and when statistics began to make rapid strides these regularities and tendencies were called laws. When it was observed that out of ten thousand people a certain definite number every year got married, another definite number procured divorces, still a different but definite number committed crimes, a precise number which could be told in advance took their lives—when, in short, all social phenomena appeared to recur regularly year after year—a feeling akin to fatalism arose, and some statisticians were inclined to look upon these regularities as laws of the external world beyond the control of man. Further inquiry revealed differences in these proportions between different lands, and showed further that differences could be

brought about by the action of man. The phenomena of intemperance have in parts of England and other countries been definitely altered by agitation of various kinds for reform. We have at times to do with powerful tendencies in economic life, and these for a period appear to resemble laws of the physical universe. The tendency of certain pursuits, like gas service, street-car service, telephone service and the like, to become monopolies acts with a power like that of a mighty river, and we can with safety predict that apparent competition in the field of natural monopoly will prove both illusory and temporary. Most instructive is the observation of great currents in our economic life and the study of the forces back of them.

Read the author's monograph, *The Past and Present of Political Economy*, published by the Johns Hopkins University in its *Studies in History and Political Science*.

CHAPTER XV.

A FEW REMARKS ON THE UTILITY OF POLITICAL ECONOMY, WITH SOME GENERAL CONSIDERATIONS ON THE RELATION OF POLITICAL ECONOMY TO OTHER SCIENCES.

1. Political Economy a Useful Science.—The preceding pages have, it is hoped, convinced the reader that political economy is a useful study, and one worthy of the greatest minds. It affords room for the speculative intellect, and yet speculations can be tested by the experiences of actual life. Fancy and imagination, so necessary to all sciences, have here ample scope for their exercise in attempts to construct hypotheses to explain social phenomena. The best powers of observation find opportunities for service, and experience will further sharpen them. The keenest analytical intellect will never be at a loss for material on which to bring all its acumen to bear. Philosophical instinct, which seeks insight into the innermost nature of things, is most welcome in political economy. Philanthropic sentiment is gratified by the discovery of ways to benefit the human race.

It is, however, frequently asserted that political economy is not practical, that it is in fact "a mere theory," and as such its claims are often rejected by business men. This is short-sighted. Political economy has to do with the socio-economic organism, and knowledge can be acquired about this by systematic study in the manner described, and this knowledge can be transmitted and increased by accumulation from generation to generation. The actual experience of the so-called practical man does not take the place of economic knowledge. His experience is too narrow and limited. If he is a man of small nature he is very positive of his own infallibility, and looks upon the claim of the economist that he can

tell him something about the business world as unwarrantable presumption. Yet his conclusions are diametrically opposed to those of a practical man in another line of business on the opposite side of the street, and both of them differ in views from the opinions of practical men in a neighboring city. It is because the range of facts of each is exceedingly narrow and each has been entirely absorbed in his own affairs. It is on this account that the attempt to improve politics by putting practical business men in office has so often proved disastrous, and men have been again and again obliged to go back to the so-called professional politician. Business facts are not all those needed in government. Finances of government, for example, ought in some respects to be conducted on principles exactly opposite to those which obtain in private financiering. Political economy is a young science—as a separate science scarcely over a hundred years old—and it behooves political economists, though conscious of their own value, to be modest in their claims and to remember that much is yet to be learned by the wisest of them. Nevertheless, how diverse are the elements which have contributed to this body of knowledge! In the historical sketch it will be seen that philosophers have helped to build it up, that distinguished and remarkably successful business men have contributed their best thoughts to advance its growth, that statesmen of the leading civilized nations have participated in its development, as well as those who have been primarily political economists, while great philanthropists have helped to give it shape. For a century, then, business, philosophy, jurisprudence, and practical politics and philanthropy have helped to make political economy what it has become, and the fruit of so much intellectual effort and such extended experience is not to be regarded lightly, even while it is recognized that on account of the complexity of the subject-matter political economy is yet in an imperfect condition. Even where it cannot speak authoritatively it is always entitled to a respectful hearing. The truth is, every body who is not a fool must act according to some theory, but the ordinary man is often guided in

economic utterances by antiquated theory which has gradually percolated down through several social strata until it has reached him.

A practical man might as well try to get along without a lawyer as a modern nation without political economists. The political economist is in fact to the people as a whole what the lawyer is to the private man. It is the business of the political economist to guard the interests of the masses, and to suggest measures to promote their welfare. The political economist may in some respects be compared to a physician, only that he deals with the body politic. We can imagine a man saying, "I know more about my own body than a mere theorist who has been studying under college professors and working in laboratories and has never had any practical experience with my body." Yet we know that such talk is nonsense. It is because the practical business man has so often failed to recognize this and to remedy his own shortcomings, and has advanced his crude and antiquated ideas as practical guides, that one of our deepest thinkers in political science has spoken of the "practical man as the bane of our political life." Certain it is that our government will continue to be almost exclusively a government of lawyers until people more generally take pains to instruct themselves in the various branches of political and social science. Government can never be conducted like a manufactory or a mercantile establishment, and every proposal so to conduct it reveals ignorance of first principles.

2. **Political Economy and Other Sciences.**—Every science contributes directly or indirectly to every other. All knowledge is one. But we are now concerned chiefly with that group of sciences which has to do especially with human society. Before we pass on to remarks about social sciences a word must be said about philosophy, physiology, and hygiene.

Philosophy and Political Economy.— Philosophy is useful perhaps especially as a mental training. Philosophy seeks to look into the fundamental principles of all knowl-

edge and inquires then into the nature of the State and of society and the aim of life. It seeks a final reason for things. It gives broad and generous views, and lifts up the mind in the contemplation of immense themes. Philosophy helped to give birth to political economy, and when in England it seemed on the point of collapse philosophy gave it new life. Philosophy has again and again been a source of inspiration to German economists, and perhaps the lack of philosophy explains the sad deadness of political economy in France, where for a hundred years almost nothing has been done to advance the science. Philosophers like Fichte, Hermann Lotze, must to-day assist economists who are competent to understand them. Logic, regarded as a branch of knowledge, is especially useful on account of the discipline it gives in careful reasoning, particularly in analysis, discrimination, and detection of fallacies.

Physiology and Hygiene and Political Economy. —Physiology and hygiene are helpful in the discussion of social questions, and too little has been made of them hitherto. Physiology, for example, ought to be consulted in questions like child labor, labor of women, especially married women, the length of the working-day in factories and in open fields, etc. Hygiene furnishes rules for sound physical life. M. de Laveleye even says that the science of health ought to determine the normal rate of wages. The human body is the chief source of wealth, and physiology and hygiene must teach us how to conserve and increase our bodily powers.

History and Political Economy. — History reveals to us the economic life of the past with its instruction and lessons. History clearly presents many of our problems, as, for example, the downfall of States. How can we guard against the evil unless we truly know its nature? It seems clear that economic forces are prominent in the decay of civilization. But we have not yet a sufficiently accurate and detailed knowledge of them. A profounder study of economic history must precede a satisfactory political economy.

At the same time history cannot be understood without a knowledge of economic forces which give it shape. This is clearly seen, and as the writer's colleague, Professor H. B. Adams, well says, political economy is becoming historical, and history is becoming economic.

Ethics and Political Economy.—The relation of political economy to ethics has already been sufficiently indicated. Ethics is connected with what ought to be both for individuals and for society, and if ethics has heretofore considered man too exclusively as an isolated individual, its progress for the future evidently lies in the examination of social relations. It may be doubted whether ethics, except as a social science, can have any real existence. Political economy takes what ethics has to offer as a guide for the development of economic life. Ethical conceptions have always governed all social life more or less perfectly. The economic life of ancient Oriental nations was more under the dominion of ethical principles than has been that of modern Occidental nations. The ethical principles of the East were not of so exalted a nature as ours, but such as they were they permeated their life as ours do not. The national economy of the Jews illustrates this excellently. During the Middle Ages the Church attempted, and for a time with some success, to subordinate all social life-spheres to the demands of ethics. Personal service, returns for loans, and prices were regulated. The conception "fair price" (*justum pretium*) was formulated, and exerted a powerful influence. It seems clear to the writer that industrial peace can never be secured until the supremacy of ethics is recognized by public opinion, and is made effective by laws and constitutions. It is on this account that the institution of "fair rents" in Ireland is to be welcomed. It may or may not work well in this particular instance; that is, the proper method for giving effect to ethical principles may not have been adopted, or it may have been; but the supremacy of ethical considerations in either case is recognized and the freedom of contract distinctly subordinated, as in American usury laws. Courts fix

rents which are regarded as "fair" in Ireland irrespective of all agreements. It may be difficult to tell in general what is fair, but not so hard in a concrete instance. At any rate it is actually done. "Live and let live" is our homely adage which expresses a popular idea of fairness, and this seems in a rough kind of way to give the Irish land courts a guiding principle in determining fairness. Ethics should investigate more carefully than it has done the nature of mutual rights and duties.

Political Economy and Religion.—We may properly enough speak of a knowledge of religions as a science, or even of a knowledge of one religion. Theology is a systematic treatment of a certain order of related facts. But here we are concerned with religion not so much as a science as an inspiration, as a power to direct life, and thus as intimately connected with ethics. Religion, like ethics, supplies norms for conduct, but it does more. It supplies a moral force to induce men to acknowledge the truth, and to do what they know to be right.

Every system of religion must affect the general character of the nation under its influence. The fatalism of the Turks leads naturally to indolence, while the old Jewish religion with its high estimate of the good things of this world tends to stimulate its followers to activity and to accumulation. Christianity moderates desires, sets a higher aim than wealth before people, but dignifies the man who gains his bread by honest toil, and enjoins diligence and an improvement of all talents committed to us. It teaches us to love our fellows, and this has encouraged enlightenment of the masses, and enlightenment increases prosperity. Love for our fellows prompts us to promote their physical welfare in every respect, and this tends to conserve and increase their strength.

It is not practicable at present to take up every one of the constantly increasing number of branches of social science and to trace the relations between it and political economy. These relations must often be quite obvious. The

treatment of the dependent and criminal classes brings us in relation to a multitude of economic phenomena. These classes impair the productive power of the community, and the number of persons belonging to them is largely, though not wholly, determined by industrial conditions. If the laboring population is housed in crowded tenements in the slums of cities, it will help to swell the ranks of vice and pauperism. If child labor is general, a generation weak in body and will-power, with depraved habits early acquired, may be expected. Many such reflections will occur to the reader, and observation of the life which surrounds him will every day confirm what is said. Prison labor is one topic showing the connection, though only a small part of the connection, between penology and economics. Contract labor has injured the working-men and their employers. It has in Baltimore destroyed for free labor an important branch of a large industry—namely, the manufacture of marble slabs for wash-stands, Pullman sleepers, bureaus, and the like. But if the labor of prisoners is not to be hired to contractors, to the injury of the upright, how shall it be organized? for idleness is barbarous inhumanity not to be tolerated. Here we come to economic questions. Poor relief, public and private, is as intimately connected with economics, and it has been discussed, perhaps, chiefly by economists. It was an English economist, Malthus, who, on economic principles, helped to introduce a reformation of the poor laws of England in 1834.

Anthropology may be mentioned under this general head. It is sometimes conceived of in a large sense as the science of man. It would then include sociology and every thing else about man which could not be brought under the general designation social relations. Very often, however, it means prehistoric and early man, man in the lowest stages of his development, and discusses the dawn of civilization. It includes the economic life of prehistoric and early man as one part of its field.

Law and Political Sciences.—The relation of political

economy to law is a close one, especially in our day, for political economy explains the reasons for a great part of the laws, their nature and the principles which should control their development. Many of the subjects which belong to political economy belong also to law. Both treat of possession, property, inheritance, sale and purchase, loans, gifts, wages, rent, taxation, combinations of labor and capital, and like topics. Political economy touches the innermost nature of law questions. It might not be altogether inappropriate to call political economy "the spirit of the laws," taking the name from Montesquieu's book which bears that title.

As we have seen, political economy has by one writer been defined in such a manner as to convey the impression that it has to do exclusively with legislation. This was rejected as too narrow a conception. Yet if we think of live economic questions we shall find that they are, very generally at least, in part legislative questions. Topics such as these occur to one : the tariff, local taxation, the silver question, bimetallism, railways, child labor, industrial training.

When we open a law book on real estate, what is found? If it is an American or English book, probably very little save present legal facts. The law is thus and so, says your legal authority ; nothing more. Political economy tells us how private property in land came to exist, why it exists, and explains the reason why some changes in land laws should be made, and why some people think they should be radically altered and private property in land, as at present understood, abolished, and why others reject this view.

What has been said about real estate holds equally with reference to laws of bequest and inheritance. No man is fit to legislate on these subjects who knows nothing about political economy. Commercial laws and the laws pertaining to corporations can likewise never be properly handled without the aid of our science.

Political economy is needed as a corrective of certain tendencies in the law. Private law has to do with individual rights, and lawyers acquire a habit of looking at

all questions from an individual stand-point. This becomes painfully apparent in reading English and American judicial decisions. The rights of the people as a whole, that is, of the many, are overlooked too often for the sake of a few interested parties. It is not meant to attack the integrity of American and English judges, because with comparatively few exceptions they have been men of blameless character. The trouble lies with the point of view which naturally arises from an exclusive consideration of private law. Every judge is familiar with the bearing of legal questions on the private interest of individuals, but too often loses sight of the millions not present before him. If we go back to olden times or foreign countries, about which our judgment is fairer, we can all see this tendency of lawyers as a class, both in legislatures and on the bench, to sacrifice the many to the few. The common lands of India serve as an illustration. English lawyers could not grasp the fact of common property of a village in land, and so looked about for a private owner, and mistaking a tax collector for proprietor they made him a real proprietor. Thus were the villages robbed by legal incapacity to grasp the economic situation. The same thing happened in England, as Sir Henry Maine, John Stuart Mill, and others have shown. The common land belonging to English villages was allowed to be inclosed by lords of manors, and thus the property rights of the forgotten millions were again sacrificed.

Private law is concerned with petty details, and attaching undue importance to them is apt to exaggerate the importance of mere legality, the letter and machinery of the law. Political economy gives large views and general principles.

Voltaire called lawyers conservators of ancient abuses, and Professor Bluntschli speaks of law in itself without any corrective influence as "tending to the numbness of death," failing "to keep step with the development of life." Rule by judges tends to petrifaction, and is conservatism of a revolutionary because obstructive type. Lawyers have doubtless caused by obstruction many revolutions, and they can

rarely reconcile themselves to great progressive changes like the independence of the American colonies or the unity of Germany or of Italy until after these things have taken place. The reason is that lawyers are always looking back to the past for legal precedent, never ahead, and this begets a dangerous habit unless other tendencies are at work to correct, or perhaps, more properly, modify the force of this conservatism. Political economy is progressive, and helps to counterbalance a dangerous tendency toward revolutionary conservatism.

Law is concerned with modern industrial life. To an increasing extent are legal questions becoming almost purely economic, as seen in boycott, black-listing, conspiracy, and combination cases. Legislators make laws to apply to these cases, and judges, in their decisions, do not merely find the law; they make it. Recently in such cases American judges have been more active in legislation than legislators themselves. Yet legislators, and particularly judges, are unfit to make decisions, and cannot make decisions which will stand the test of time without a profound knowledge of political economy. It is thus with propriety that France and Prussia require a knowledge of political economy in all candidates for admission to the bar, and that some of our best law schools have rendered instruction in political economy at least accessible to law students. It should be a part of every law course, and every candidate for admission to the bar should be compelled to pass a thorough examination in political economy.

But political economists need law. Perhaps no study is more useful to them. It is a splendid training for the mind. The material of law and political economy is the same, but in law we have a ripe experience of thousands of years in analysis, arrangement, and exact statement. It gives precise facts about present institutions. It shows the basis on which progress must build. It shows how deep are the roots of our present social order. It emphasizes the importance of the statics of political economy and corrects a tendency toward revolutionary rashness which is the opposite of all true prog-

ress. Finely do law and political economy supplement each other.

We have been speaking of private law, which has to do with legal relations of private parties. We must allude to public law, which is concerned with the relations of public bodies to one another, or with relations of public bodies and private parties.* *Public law* and *politics* constitute political science. The relation of them to political economy is sufficiently obvious. Political economy places aims before political science, and political science strives to realize these along with its other ends. Constitutions, the highest expression of public law, must be made to conform to industrial conditions, and this conformity can be brought about alone by political economy. The trouble with our American constitutions with respect to taxation, bankruptcy, and divorce and marriage—and divorce and marriage imply the weightiest kind of economic relations — is that they have not kept pace with economic changes, and the difficulty of doing this is precisely the most serious danger of written constitutions. That is the weakness of our federal constitution. Economic life changes continually, but that, practically unchangeable, cannot be made to conform to industrial conditions.

International law, treating of the relations of sovereign States, is a department of law which is constantly increasing in economic importance. Economic relations are becoming international with a truly astounding degree of rapidity. Competition is international, and we have world markets for staples. Combinations of labor and capital are international. Government itself forms international postal and telegraph unions. Switzerland has formally proposed to other governments international factory legislation to protect women and children, and other wage-receivers, so as to place manufacturers in different lands on the same footing in competi-

* See the excellent work on *Jurisprudence*, by T. E. Holland, fourth edition, chapter ix. My definition of public law is somewhat broader than Holland's.

tion. A body of international law with effective means for its enforcement is needed, as never before, for the organization and regulation and preservation of international economic relations.

Read chapter i of Introduction to Bluntschli's *Modern State*, of which an English translation exists. Those who read German will do well to consult Cohn's *National Oekonomie*, second chapter of the Introduction. Professor Henry C. Adams's article on "Economics and Jurisprudence," in the pamphlet *Science Economic Discussion*, may be read with profit. It is published by the journal *Science* in New York.

PART II.

PRODUCTION.

CHAPTER I.

INTRODUCTORY.

Utilities.—Man creates no new matter. Neither the farmer nor the merchant adds one atom to the existing material of the earth. Yet they are both properly called producers. What do they produce? Simply quantities of utility. And how do they produce quantities of utilities? Simply by putting things in their proper places. Man can only move things, and when he moves them in a suitable manner he creates utilities. "This one operation," says John Stuart Mill, "of putting things into fit places for being acted upon by their own internal forces and by those residing in other natural objects, is all that man does or can do with matter."*

It has seemed to some that the farmer is more truly a producer than the manufacturer, and the manufacturer than the merchant; but such is not at all the case. All of these industrial classes do the same thing. They produce utilities by moving the places of things. The farmer adds nothing to the material of the globe, but he gives direction to the forces of nature so that existing material becomes better adapted to the wants of man, and thereby more useful. He drops corn into the earth, and thereby puts it into a fit place for being acted upon by external natural forces. From time to time he removes weeds and throws earth about the stalk which grows up, and portions of earth, air, and moisture take new relative positions and the result is again corn, and more corn. Changed places and natural forces have rendered things more useful. All this while man has done nothing but put things in fit places.

The manufacturer changes forms and combinations of raw

* *Political Economy*, Book i, chap. i, § 2.

material by putting things into fit places, and likewise produces utilities. The merchant similarly takes things from places where they are less useful to places where they are more useful. He produces utilities as truly as the farmer or manufacturer. It may well happen that the utilities produced by the merchant could be produced with a smaller expenditure of economic force, and that by a better organization of the factors of production saving could be secured; or it may be that at times the merchant has been able to secure a larger return for the production of a given quantity of social utility than the farmer; but all this is no justification whatever for the popular impression that he is less productive than any other person who is engaged in economic work.

Production, then, means the creation of utilities by the application of man's mental and physical powers to the physical universe, which furnishes materials and forces. This application of man's powers is called labor.

Those quantities of utility which result from labor are called economic goods, but not all economic goods are the result of labor. Economic goods have not been defined thus far, but they have been described as material good things. Probably any reader of this book would call a vacant lot on Fifth Avenue in New York City a material good thing, even if no person has ever expended a day's labor on it. It is desirable at this point to have a clear idea of economic goods, and a definition is offered. We will begin with the word good. Every thing which satisfies a human want we call a good; and here on the threshold of our science we see how absurd it is to say that politico-economic laws are independent of man, and would be what they are if man did not live on the earth. We cannot get half way through our definition of economic goods before we have brought in the human element.

Goods we divide into free goods and economic goods. Free goods are those which exist in superabundance, and are offered freely to every one without charge. Air and water

are usually free goods. Land in a new country is frequently a free good.

Economic Goods are those Goods which are usually and regularly obtained by man only by exertion, and which, or the use of which, may be disposed of for other Goods.—They may be further characterized as directly or indirectly exchangeable for all goods which come on the market. After money comes into use they may be defined as goods which exchange for money or as goods which are bought and sold.

A few points require further explanation. "Usually" they are obtained by exertion. One may pick up a diamond or a nugget of gold upon which one has stumbled. Mere picking up of these articles cannot properly be called labor.

Man's Original and Acquired Powers.—The goods or their use may be disposed of for other goods. This enables us to include in our definition both material and immaterial goods, like a person's technical skill acquired by labor, and often very productive. The central point of our science is the conception of man in his relations to material good things, but it does not seem practicable to exclude utilities fixed and embodied in human beings from the rank of economic goods, because man cannot be bought and sold. Once many men could be bought and sold, and they then took their place with horses and oxen among material goods. Now man may sell the use of his powers. It is hard to draw the line, but it may be done, with sufficient accuracy, by keeping in mind our central conception. We would not speak of the cultivation of our faculties, merely for the sake of our own better development, as economic exertion in any strict sense, although it might well have economic consequences. The economic life and its goods are subservient to man. We call the acquisition of a technical skill an economic process, because it has reference to the creation of utilities incorporated in material good things. The direct labor expended on matter we may call a primary economic process, and that labor which prepares us to expend our augmented power on material things

to render them useful, or more useful, we may call a secondary economic process. There is a production when economic exertions and non-economic exertions meet, as in the common-school education of the young. There are such border lines, where discrimination is difficult or impossible, in natural sciences as well as in social and mental sciences, but they need not as a rule occasion much difficulty.

Wealth.—Political economists have usually called economic goods wealth, but this is objectionable, because wealth, in ordinary language, generally means large quantities of economic goods, either absolutely, in proportion to one's wants or, as is oftener the case, relatively, with reference to the possessions of others. Wealth is also used often to denote the economic goods belonging to an organized society of men, especially of a nation. We compare the wealth of England with the wealth of France or Germany. We would hardly say Germany is not a wealthy country, but, rather, not a rich country. Notwithstanding the ambiguity, wealth has so generally been used for economic goods, and is so convenient a term, so much more so than the larger term of two words, that it may not be possible, perhaps not even desirable, to displace it entirely. The two terms can be used interchangeably in many cases, care being taken to employ economic goods wherever it will make our meaning clearer or help to avoid misunderstanding.

The Individual and Society.—One distinction runs all the way through political economy, and that is the distinction between the social and the individual stand-point. We have consequently to distinguish between social and individual wealth, for what is wealth to the individual is often not wealth to society.

Many illustrations offer themselves. A mortgage is individual wealth. If the claim it stands for is extinguished society is neither richer nor poorer. Similarly all state, municipal, and federal bonds represent claims on the industry of the people. If all these bonds should be destroyed, the bondholders as individuals would suffer loss, but society

as a whole would be neither richer nor poorer, and society exclusive of bondholders would have gained at their expense.

Census Estimates of Wealth.—All census returns of wealth are, in many respects, of necessity defective and misleading. First, census returns are made in money. If commodities are very abundant the price will be low, but the real wealth of the country is great. Let us suppose the quantity of cotton cloth of which account is taken doubles between two censuses, and that the price falls one half. The wealth of the country has apparently not increased at all, but in reality it has doubled, because wealth consists in quantities of useful things. Second, private wealth is included, which is not public wealth, but which often resembles a taxing power. This is the case with many franchises recklessly granted to private corporations. An illustration will help to make the author's meaning clear. Baltimore street-car companies pay to the city for the maintenance of public parks nine dollars out of every hundred they collect in addition to ordinary State and city taxes. Let us suppose this special payment for the use of the streets abolished; it would immensely increase the value of the street-car companies' franchises, and they would figure in census reports for a larger amount, and there would be an apparent but altogether illusory increase in national wealth. The companies would simply have gained at the expense of the rest of the community. The telegraph in other civilized countries than ours is public property, and can only be valued at the cost of the plant, land, buildings, etc., while in the United States there is an enormous additional valuation on account of the fact that the telegraph is private property, and that in the nature of things it is a monopoly. Apparently in this respect we are far richer than countries like France and Germany, but again census returns are misleading. We are poorer in many ways.

Take our own post-office. It can figure in census returns only for actual value of its plant, while if it should be made over to a private corporation it would soon have a capitaliza-

tion of hundreds of millions of dollars. Apparently the wealth of the country would be increased, but really we would be poorer, for we should be obliged to support an army of highly paid officials, a host of costly attorneys, and an expensive and demoralizing lobby to shape post-office legislation for private ends.

Most countries have granted limited charters to gas companies, street-car corporations, steam railway companies, and the like. Very often, at the expiration of a given period, as thirty, fifty, or ninety years, the entire property, without recompense, passes over to the people, and becomes public, like our post-office. This is the case with street-cars in Glasgow, Scotland; and Berlin; Germany, and steam railways in France and Austria. Elsewhere the right is reserved to purchase property at the expiration of a prescribed period, paying for the plant only, at an appraised valuation, giving nothing for the franchise. This prevents an inflation of values, but enriches a country.

The results of the household work of women do not appear in the census returns, and yet they include a large part of the utilities created every year in a country. If bread should universally come to be baked outside the home it would increase the wealth of the country as reported in the census returns.

We have isolated production and social production, domestic production and production of economic goods for exchanges, all of which expressions have been sufficiently explained in the previous part of this work. We have also individual and social production in a sense just described in this chapter. Individual production is sometimes social destruction of economic goods. A proprietor of a lottery may produce things valuable to him and acquire wealth, while his activity is from a social stand-point pestiferous. The same thing may be said of the class of saloon-keepers, and of all those unhappy wretches who minister to vice. We have also the familiar terms of production on a large scale and on a small scale, well enough understood.

Over-production and Under-consumption. — The purpose of production is consumption, and if more is produced more must be consumed. Power to consume is measured by purchasing power, and power of consumption sets a limit to production. There is no such thing as general over-production, for more economic goods of all kinds have never been produced than men really need to satisfy their legitimate wants. On the contrary, not enough has ever yet been produced for this purpose. Sometimes production does not go forward evenly, and there is an undue amount of labor and capital directed to certain pursuits, but until all men are well-clothed, housed, and fed, and furnished with material appliances for their higher life, like books, pictures, musical instruments, church buildings, etc., it will be a manifest absurdity to talk about a general over-production. When there is almost universal difficulty in disposing of goods produced the real phenomenon is described by under-consumption. Men want these goods; they are willing to give services in exchange for them, but they cannot dispose of their services, and consequently they lack purchasing power. A glut in the market always means under-consumption. This is one of the sad and curious features of the life of the modern socio-economic organism. Its parts do not always fulfill their functions harmoniously; frequently parts are partially incapacitated and the body is in a diseased condition.

Some have supposed that luxury and extravagance are able to remedy gluts in the markets, but this is impossible. On the contrary, they frequently bring about a diseased condition of industrial society which leads to gluts. At any rate, if any one has an excess of purchasing power, it is always easy to transfer it to some person or institution capable of using it for the benefit of humanity.

Other Departments of Political Economy.— Production taken in its widest sense includes every thing in political economy except consumption of goods. The acquisition and employment of goods embraces the entire economic activity of man. "Transfers of goods," dealing with

the circulation of goods, and the agencies through which this is effected, is one part of production. Distribution is in early stages of society nearly identical with production, and is so to some considerable extent to-day. What a man produces constitutes in the earliest stages of economic development his income. A man catches two fishes in a day, and these are his income. It has been said that even in modern society there are no separate organs of the economic body concerned with distribution. Distribution may in the main, perhaps, be said to follow naturally from the existing system of production. Yet this is not wholly so. Laws and institutions modify more or less consciously the distribution of wealth. This is the avowed purpose of the French law of inheritance, which divides the bulk of a father's property equally among his children, regardless of his wishes in the matter. Moreover, as production is at present carried on under our laws of property, many people who by their own efforts contribute nothing whatever to production enjoy a large amount of what is produced.

Finance treats of the acquisition and employment of means by governments, but there are many peculiarities concerning the housekeeping of governments which render it advisable to treat this subject by itself, and not to distribute the matter among other main parts of political economy. We have, therefore, adhered to the traditional distribution of the matter into main parts for convenience, admitting that it is not strictly logical to make the divisions, production, distribution, transfers, consumption, and finance, as if these were equal in rank. It would be more logical, perhaps, to place transfers and distribution under production as sub-heads, but it would be a more cumbrous arrangement, and strict logic is sacrificed to convenience.

On the productivity of commerce, and the erroneous opinion that agriculture alone is productive, read chapter iv in Ely's *Problems of To-day*.

CHAPTER II.

MOTIVES OF ECONOMIC ACTIVITY.

Wants.—It may be said, in a word, that the wants of man supply his economic motives. This is true, but it is too vague to be serviceable. Man's wants are of all kinds. They include pleasurable exercise of our faculties, the discipline of toil, the physical means for the support of one's own life, the physical means for the maintenance of the existence of others, love, friendship, religion, etc., etc. No man except a foolish or insane person engages in economic activity except to satisfy some kind of want. There is a purpose in the action of rational men.

We may speak about one's own individual wants, of the wants of other individuals, and of the wants of States. All of these orders of wants supply motives.

Self-interest is one economic motive, and certainly a most powerful one. It is not exclusive, and in itself it cannot explain the economic life of nations, as has been already seen. Self-interest acts differently under different circumstances. It will in India, perhaps, lead a man to do one thing, and in England quite another thing. But what do we mean by self-interest? Assuredly not always the same thing. Self-interest among savages may include simply an individual. It is taken for granted with us that a man's self-interest includes wife and children. When we say a man is prompted in the business world by self-interest we assume that his activity is directed to the benefit of his own immediate family at least. Self-interest thus includes a narrow circle when reduced to its lowest terms, and this shows itself not merely in using money earned, but in productive processes; sometimes even unjustly, as when relationship unduly affects

salaries, number of holidays, and other privileges. But the circle of self-interest is capable of indefinite expansion until it embraces a town, a county, a State, a nation. If self-interest becomes so broad in its scope as to identify self with humanity as now with one's family, we have Christian altruism. What is wanted is to extend the circle of self-interest.

Self-interest is not a bad thing. It is a good stimulus when it assumes its proper form. Self-interest is compatible with a generous consideration for the material welfare of others. I am one of mankind, and my love for humanity includes myself. If I neglect the care and development of myself I injure humanity. The humanitarian spirit includes both self-love and love of one's fellows. But self-interest may become diseased, and then, placing self above others and neglecting others, it becomes selfishness, which a moral teacher has called the true source of all sin.

Patriotism is a motive, and a powerful one, especially in times of great awakening of national spirit.

Religion renders service a duty, and pronounces the man who lives in this world without rendering himself personally useful in the work of mankind a thief and a robber. It is a powerful economic motive, particularly in the highest natures.

Self-Interest, Brotherly Love, Public Spirit.—Professor Wagner, of Berlin, has from a somewhat different stand-point spoken of three principles in national economic life, to each of which he ascribes a special motive. There is the principle of individual and private enterprise, in which self-interest is dominant; there is the principle of public activity, the social principle as opposed to the individual principle of private business. This second principle corrects, modifies, and rounds out the first. Private and public activity supplement each other. We have finally the third principle, that of brotherly love, the caritative principle, filling in gaps, supplying omissions, mitigating the severities of individual and of public action. Self-interest, brotherly

love, and public spirit are, then, three motives of economic activity, but they are not exclusive one of the other. They pass gradually over into one another and are often indistinguishable.

Desirable and Undesirable Wants.—We may classify wants, further, into desirable wants and undesirable wants. Wants satisfied by those things which serve as a basis for the full and harmonious development of our faculties are desirable wants; wants satisfied by other material things which are not positively helpful or are positively injurious are undesirable wants. Wholesome food, comfortable clothing, commodious shelter, books, musical instruments, fine works of art, are all things which minister to desirable wants.

Luxury.—Luxuries are things which minister to such undesirable wants as love of display, vanity, or selfish desire to exalt one's self above one's fellows, and thus to produce separation. We generally think of luxuries as costly things, but a wanton and luxurious expenditure for dress may in a vain woman's life-time amount to far less than the perfectly justifiable expenditures of her neighbor to promote in herself, her family, and others an appreciation and love of the beautiful. Proportionality is one element in determining whether a thing is a luxury or not. If the real gain to one's self corresponds to his outlay it cannot be called a luxury. One test is to ask this question: "Would I myself, if normally constituted, obeying ethical principles, be willing to undergo the toil and sacrifice that article has cost for the pleasure it affords?" The answer must be in the negative in the case of articles like Belgian hand-made lace, which is the product of long, weary toil of poorly paid girls who often lose their eyesight in this work. An economist* has defined luxury thus: "Luxury is whatever contributes chiefly to enjoyment rather than to a better training of our powers. Luxury is defensible only in so far as it does not hinder the development of a better manhood in us and in all those whom we could influence."

* Professor E. W. Bemis, of Vanderbilt University.

Public and Private Luxury.—Proportionality will show that expenditures by the public and for the public and by private individuals for the public are justifiable which would be altogether unjustifiable for a private party. What is luxury for a private person is not at all luxury for the public. Grand public buildings, which lift up and inspire the people, magnificent art galleries, grand universities, magnificent common schools and academies are excellent things, and the toil and sacrifice which they require are well repaid in the returns made in the higher and better life of the people. Wants to which these minister are among the best national wants. It is only in a morally diseased condition of a people's consciences that lavish outlays will be approved for private individuals and parsimony prescribed for the public.

A defense is sometimes offered for private luxury which is so manifestly weak that it scarcely deserves attention. It is said, "It gives opportunity to work." The same expenditure for humanity would obviously give an equal opportunity to work.

Moralists, philosophers, statesmen, and religious teachers have all united to condemn luxury, and to it has very generally been attributed the downfall of states. Among those who have spoken strongly on luxury we may mention Plato and Aristotle, all the Church fathers, and the greatest of the mediæval philosophers, Thomas Aquinas, the Scotch philosopher Adam Ferguson, of the last century, and M. de Laveleye in our own. There can be no kind of doubt as to the teaching of Christianity on this subject. We may divide those things which we want into necessaries, comforts, conveniences, and luxuries. We satisfy our own wants in the order named. Manifestly we are not even making an effort to love our neighbors as ourselves when we indulge in luxuries so long as they want the necessaries, comforts, or even conveniences of life.

Among the most pernicious things which satisfy undesirable wants may be mentioned tobacco, opium, intoxicating beverages. The best that can be claimed for even a moderate

use of these apart from medicinal purposes is that they do no positive harm to the individual's physical well-being, and that they afford at least a temporary solace, and tend to sociability. The following figures will show the enormous amount annually expended for these commodities, and will suggest the question, even suppose no excess or otherwise injurious consequence, could not all these resources be better employed?

The total amount of distilled spirits consumed in the United States in the year 1887 was 71,064,733 gallons. The consumption of malt liquors was 717,748,854 gallons, and the consumption of wines was 32,618,290 gallons. Of course we cannot tell just how much was paid by the consumers for this immense flood of intoxicants, which, if poured together, would fill a channel twenty feet in depth, twenty feet in width, and forty-six miles long, but many estimates have been made both by those who defend and those who oppose the use of liquors. They place the cost at from $700,000,000 to $1,000,000,000. If we deduct the liquors which are used in the arts, and for other purposes besides that of drinking, it is probable that the first estimate, namely, seven hundred millions of dollars, is not too high a figure to represent the amount of money that is yearly paid for intoxicants which are used as beverages. This is equal to an expenditure of twelve dollars for every man, woman, and child in our country.

In comparing the amounts expended for liquors with what our people expend for other purposes there have been many misleading estimates made which in the long run can be of no real service to the cause of temperance. For instance, some persons in comparing the cost of drinks with the cost of all the food consumed in the United States have placed the former at the not extravagant amount of about nine hundred millions of dollars, but the cost of food they find to be only nine hundred and sixty-three millions of dollars. At this estimate the cost of liquors would be fifteen dollars per capita, while the cost of food would be only sixteen dollars for every man, woman, and child in the United

States. There is an important difference overlooked, namely, that nearly all of the liquor consumed comes on the market and is there estimated in dollars and cents, while perhaps less than one fourth the food consumed is brought under the conditions necessary for a money valuation.

It is important to note that if the seven hundred million dollars now spent for grain in the form of liquors were expended for food and other farm products to satisfy the rational wants of the thousands of families who are rendered destitute by intemperance it would purchase at least seven times as much grain in the form of flour as it does in that of liquor; because it is true with regard to liquors, as with all luxuries, that the amount of raw material used in their production is far less, compared with their cost to the consumers, than it is in any of the other products that satisfy human wants. Thus we can see that those farmers who think that the liquor industry creates a demand for their commodities, and those brewers and distillers who endeavor to instill this belief, are both deceived and deceivers. How much better it would be if farmers could secure high prices for their grain and other products by ministering to those rational and higher wants which strengthen human nature and enable the consumers to produce in turn a greater abundance of wealth, rather than by satisfying the demands of base appetites that degrade men and lessen the community's wealth-producing power! It is, of course, obvious that if men spend less for liquors, tobacco, opium, and the like, they will have so much more to spend for other things, and the opportunities for employment will not be at all lessened. On the contrary, as other expenditures are more likely to be productive, opportunities for employment will inevitably be multiplied.

The indirect cost of liquors to the community at large is far more tremendous and impossible of estimation than the direct cost. We all have to pay for the support of the armies of policemen, detectives, lawyers, judges, whose chief occupation grows from the use of intoxicants; for prisons, peni-

tentiaries, insane-asylums, alms-houses, fifty to eighty per cent. of whose occupants are the victims, direct or indirect, of intemperance ; while all share in the loss of industrial power that comes from weakened constitutions, dizzy heads, and extravagance. Many books and articles have been written and many public speeches have been made upon these manifold and visible evils. Those who suffer the most from drink are the working classes, and they are also those who cannot conceal their excesses and misfortunes. But it is a mistake to suppose that working-men alone furnish the drunkards, or that there are not great numbers of earnest temperance men among them. The rich have their social clubs where intoxicants perform their work as heinously as they do in the gutters, but less publicly. The only social men's clubs in the United States without a bar attached are, so far as the writer has observed, working men's clubs. These appear to be generally devoid of that institution. If there is a fashionable club-house in the United States where intoxicating beverages are not sold the writer has yet to discover it.* While intemperance is a monstrous evil, and cannot be too earnestly fought against, we should not fail to see that it is at the same time both an effect and a cause. Farmers are proverbially a temperate class of people, and when we look for the worst effects of intemperance we go to our crowded cities and great industrial centers.† But here we find industrial and social conditions which force us to believe that, until they are remedied, we can look for no lasting growth of temperance or strengthening of character: on the one side, immense wealth, with its

* Since writing the above the author is told that the Winthrop Club, of Springfield, Mass., which has elegant rooms and appointments, and includes most of the leading business and professional men of the city, has no bar, and no liquor of any kind is sold or used in its rooms. The opinion is expressed that there are other such.

† A friend writes to the author as follows: "My observation is that in the Eastern States farmers in regions remote from centers of social activity are much addicted to drink. The cider-brandy distillery has long been the curse of Litchfield County, Connecticut."

temptations of pride and luxury; on the other, crowded tenements, hot and noxious in summer, always loathsome and repulsive, occupied by those who do not know whether they will find work that day or not. Their condition is often the effect of their former intemperate habits, and in turn it drives them and their children into further depths of inebriety. An important reason for the craving for intoxicants, as is shown by one of the foremost of American physiologists, is the lack of sufficient food or of a sufficient variety of wholesome food, and especially poorly cooked food. These and many other facts with regard to the economic conditions of our day admonish us that the thoughtful temperance advocate must embrace in his efforts both temperance and industrial reforms.

Another serious waste of wealth results from the use of tobacco. In 1886 there were 743,460 acres of land devoted to the production of this weed, and the quantity of cigars, cigarettes, and cheroots consumed by the American people in the year 1880 reached the enormous number of 2,821,776,282, representing an outlay on the part of consumers of at least $140,000,000. In the year 1888 the number probably increased to over three billions, or more than fifty for every human being in the country. The tobacco that was consumed by chewing and in the form of snuff was, in 1880, 136,275,835 pounds, at a cost to the consumers probably of $70,000,000. The indirect loss resulting from the use of tobacco is not so great, nor are its effects upon the consumers so disastrous as is the case in the consumption of liquors, but it is at least doubtful whether the enormous outlay shown by the above figures is compensated by any increased happiness of the people.

The opium habit is said to be rapidly growing in America. Its effects are even worse than those of alcoholic intemperance, destroying both the mind and body, and transforming its victims from productive members of the community into a public burden.

There are other objects of foolish and harmful consump-

tion. How often is the usefulness of women destroyed or lessened by extravagant display of jewelry and precious stones which minister only to vanity and envy!

Those who have access to a file of the *Popular Science Monthly* will do well to read an article on "Morals of Luxury" which appeared in that magazine for March, 1881, by M. de Laveleye. Read also his remarks on luxury in his *Elements of Political Economy*, Book IV chapter ii, § 1. A French author, M. Baudrillart, has written a history of luxury in four volumes—*Histoire du Luxe, Privé et Public.* Sidgwick's *History of Ethics*, chapter iii, may be consulted on the ideas of the early Church on luxury. The first volume of Roscher's *Political Economy* has been translated into English—divided into two volumes in the translation—and chapter ii of Book II treats of luxury, giving an historical sketch with many valuable references. It will be observed that various definitions of luxury have been given. Of course it can be so defined as to include expenditures that are praiseworthy.

CHAPTER III.

THE FACTORS OF PRODUCTION.

THERE are three factors of production, of which two, nature and labor, are primary, and the third, capital, is secondary. We will consider these briefly in the order named.

1. Nature.—The part played by nature in production has already been discussed at some length, in Part I of this book, under the head of territory as one of the two main factors which make up the national economy, the other being the factor man. We include under nature all natural forces used, as the wind, the movement of water, attraction of gravitation, cohesion, etc., etc. Many of these things furnished by nature are free goods and not economic goods. Nature, economically considered, is generally called simply land, because, of what belongs to external nature, it is with land that we have principally to do in political economy. It must, however, be observed that land has a very broad meaning, and includes what is below the surface of the earth, and water so far as it is appropriated by private parties; also in some respects the entire surface of the earth. This factor is in early stages generally common property, but in later stages of life it has been private property, and a return for its use has been secured by private individuals, or, in cases, by the public when owned by the public and leased to private parties. The return which land in itself, apart from capital or labor, yields is called rent. This is pure rent, or economic rent, which is different from rent as ordinarily understood, for rent in popular usage includes recompense for the other factors of production. Pure rent can best be observed in cities, where it is the annual value of lots on which buildings stand. A large portion of the land of Baltimore, Philadel-

phia, and London is owned by men who do not own the buildings and other improvements but receive from owners of improvements an annual rent.

Land renders three services to production: first, it gives a "standing place." It is something on which we can rest and move about while conducting productive processes. Mere space in itself is often extremely valuable, as can be seen in the case of city real estate; and as population is rapidly growing, and as a continually increasing proportion of the population dwells in cities, this service is constantly becoming more important, and the return in rent will probably augment rapidly for a long time to come. Second, land contains the element needed by plant-life, and thus serves agriculture. We call this property of the soil its fertility. Third, land contains natural products below the surface of the soil, like coal, natural gas, petroleum, iron, gold, silver, and other metals. These are the natural treasures of the earth. Man does not create them nor give direction to nature in their formation. It has seemed to some nations unfair that these natural treasures should become the property of individuals, and they have treated them as a common heritage, exacting a rent or royalty for the opportunity to appropriate them. This is perhaps generally the case on the Continent of Europe, but English law, with its inclination to the exaggeration of private rights, established the principle that he who owns the surface owns to the center of the earth, and upward, to the sky. It is a peculiarity of land that its quantity cannot be increased appreciably, and thus it is spoken of as a natural monopoly. This seems hardly accurate. It is a limited factor, but in the ownership or management of land there is no inevitable tendency to monopoly.

2. Labor.—Labor is the second of the two primary things in production. It is service supplied by human beings, and is different from other goods because it is always connected with a personality.

Moral and intellectual qualities increase its productiveness. Temperance, trustworthiness, skill, alertness, quick

perception, a comprehensive mental grasp, all these and other good qualities belonging to the soul of man are of chief importance in man. Man's mere physical strength in itself is a poor thing, being surpassed by that of lower animals, as oxen and horses; but man is far more productive, and even as a slave sold for far more than the lower animals. The economic value of intellectual training is generally not sufficiently appreciated. It has been ascertained that, with no noteworthy exceptions the higher in any part of the United States the *per capita* expenditure for schools the higher is the average of wages, and the larger, consequently, the production of wealth.

Growth of Population.—The supply of labor is increased with the growth of population, and to this there is no limit save the means of subsistence. Fear has been expressed that the growth of population may outrun the means of subsistence. A theory of population has been advanced by the English economist, Malthus, which is called Malthusianism. It is simply this: population tends to increase as 2, 4, 8, 16, 32, etc., or in geometrical progression, while the best we can hope is that food supply will increase as 2, 4, 6, 8, 10, etc., or in arithmetical progression; consequently if there were no check to the natural increase of population men would in a short time starve to death. But there are checks to the growth of population, and these are of two kinds; namely, positive and preventive. Positive checks are those which keep down population by killing off people, like plagues, pestilence, intemperance, vice, crime, war. Preventive checks are those which keep down population by preventing the birth of an undue number of people, as prudence in contracting marriage or abstinence from marriage. These are checks of a moral character. Men who are conscientious will not marry until they feel that they will probably be able to support a wife and bring up children worthily. As population becomes denser this postpones marriage, and as the age of marriage increases the average number of births will decrease. Innumerable

customs exist all over the world, especially in older countries, postponing the age of marriage, and these tend to prevent an undue growth of population. The only practical conclusion which Malthus drew from his doctrine was this: let no one marry until he has a reasonable prospect that he will be able to support and bring up a family of the average size. He wished to intensify the feeling of parental responsibility.

At the present time nothing more in the way of restraint to population seems necessary in the United States than to keep from our shores the lowest classes of foreigners and to exercise in contracting marriage that prudence which has long characterized the really best classes of American society. Nevertheless, it must be admitted that by no human possibility can population long continue to increase in the United States as it has done in the past, for in a comparatively short period there would not be standing-room on the surface of the earth for all the people. It is said that our population is now doubling in less than twenty-five years. If it continues to increase at this rate we have a geometrical progession. Let us suppose it is now sixty millions and that it doubles once in twenty-five years. Two hundred and fifty years is a short period in the world's history, but our population at the expiration of that period would exceed sixty thousand millions of people, which is forty times the estimated population of the globe at present.

How terrible a thing a geometrical progression is has been shown more clearly still. Let us suppose that there are only two people on the face of the earth, and that population doubles only once in fifty years. At the expiration of three thousand years the whole surface of the earth, land and sea, would be covered with people piled one on top of the other eight hundred deep.*

Manifestly the present rapid rate of increase of population cannot continue forever; yet it does not cause great uneasiness. It has been urged by some writers that as man de-

* Marshall's *Economics of Industry*, chapter v.

velops more highly his fecundity will decrease and the growth of population will become slower. Others think that prudential and moral restraints will be ample to prevent an undue increase of population.

The chief cause for anxiety is this : For some reason or another it seems to be more difficult for a large population to live peaceably together under present industrial conditions than for a small one, and there is ground for the anticipation that the growth of population will test the worthiness of our civilization to endure, as other causes have tested older civilizations. We may be sure that if there is a moral governor of the universe modern nations, like ancient nations, will be called upon to show their fitness to survive. Every time the sun rises it looks upon a larger population than ever before in the United States, and consequently upon a more complex industrial civilization. A force mighty, and it almost seems irresistible, is at work, day and night, day and night, never ceasing, forcing upon us more and more serious social problems. These problems can never be solved by the policeman's club or the soldier's bullet, for this quiet on-moving force laughs such repression to scorn. Only righteousness can solve them, for only in righteousness is there power to enable us to adjust ourselves to our new environment.

3. Capital.—Capital is the third factor in production. It is not one of the two first things in political economy, but it is a combination of these two. Land and labor together produce capital, just as oxygen and hydrogen combine and produce water. Capital is neither land nor labor, but, resulting from the two, it is a new thing and has properties of its own. *Capital is every product laid by which may be used for purposes of further production.* There are two elements in this conception : first, that of stored-up goods, and second, that of a possibility of use in the future.

It is often said that capital is the result of saving, but this is misleading. Saving is merely a negative act and cannot produce any positive result. We must have something to save, that is, we must first produce, and then over and above

the necessities of life there must be a surplus ; if this is laid by or saved it becomes capital.

The aid which capital renders to production is essential to any production of economic goods save the most primitive and limited. Capital means food, shelter, houses, buildings, tools, machinery, steamships, railroads, telegraphs, telephones, manufacturing and commercial establishments. Of those things which man needs to sustain life it means a surplus, and this renders possible an effective combination and organization of the productive factors. Nothing is more disastrous than to be obliged to work to-day for the food of to-day. When this is necessary no systematic activity is possible, but we must seize the first opportunity which offers to get food, however miserable. Capital accumulated means that we can postpone consumption, working to-day for the food supply of some future day. We can thus organize productive forces, we can survey the field of industry and secure the best place to apply these forces. We can put in our seed-corn and wait until it produces sixty or a hundred fold instead of wandering through the woods for uncertain game, which when taken is slaughtered, and losing its power of increase renders it no whit easier to produce to-morrow's supplies. As capital is a productive factor it claims a part of the product, and this part is called interest. Often we speak of profits, but when profits include more than interest they embrace something else besides the simple return on capital.

Social and Individual Capital.—We must always distinguish between what is capital to the individual and what is capital to society; that is, between social and individual capital. Only socio-economic goods, or material goods and accumulated personal products of past toil, can be regarded as social capital. Bonds, mortgages, and all evidences of indebtedness, are no part of social capital, but they are individual capital. Franchises are no part of social capital; they are simply permission to make use of existing social capital, or to create social capital. The capital of society is

not diminished when the value of corporate property, like railroads, telegraphs, telephones, and the like, is reduced to a fair valuation for the actual social capital invested. It may or may not be morally right, it may or may not be legally possible, to equalize in a concrete case social and individual capital ; only the particular circumstances surrounding that case can determine. It is now simply desired to bring out clearly the distinction.

Fixed and Circulating Capital.—A common division of capital is into fixed and circulating. Circulating capital is capital which can be used only once, or in one round of operations. Its entire value passes over into the product. Fixed capital, on the other hand, is capital which lasts for a succession of operations, and only a part of the value of which passes over into the product with each use. Coal used in a furnace is an example of circulating capital ; the coal-cart in which the coal is hauled is fixed capital.

Capital Saved by being Consumed.—Capital, although saved products, is consumed. When food is used for productive purposes it is consumed as truly as when used for present enjoyment. Let us suppose I can raise a certain amount of produce on my farm. I raise necessaries and also delicacies, and consume all I raise. Let us suppose now I raise only necessaries, and since I raise twice as much food as I can use I give half of my produce to a man who constructs a barn for me. I have accumulated capital, but the consumption of food has not been diminished thereby. Obvious as this is, it is not understood so generally as it should be. There is a wide-spread impression that it is better for a man to spend his substance in riotous living than to save it; but the man who builds houses makes as large purchases as he who expends the same sum in feasts, and society is richer because of the latter consumption ; the houses still remain.

Increase of Capital.—Capital is a growth, and, as a return is exacted for capital, capital begets capital, as it were. This makes it infinitely easier for a man who has capital to accumulate it than for a man who has no capital. So inti-

mately is present capital connected with past capital that it has been said that there is not a nail in all England which could not be traced back over eight hundred years to savings made before the Norman Conquest.

On Population read chapter x of Book I of Mill's *Political Economy*, and chapter v of Book I of Marshall's *Economics of Industry*. Chapter xii of Part VI of Herbert Spencer's *Principles of Biology* may be consulted with advantage. On wasteful expenditure and saving see Ely's *Problems of To-day*, chapter xv.

CHAPTER IV.

ORGANIZATION OF THE PRODUCTIVE FACTORS.

Early Simplicity.—The organization of the factors of production, simple at first, becomes on the whole continually more complex with the development of industrial civilization. Differentiation accompanies development. The old household economy is organized in such a manner that the existence of three separate factors in production is scarcely perceived. The same man is owner of land, labor, and capital, and all the products flowing into his hand are distributed by him among those who participate in production according to the manner which he deems proper. When production is carried on by a village community we have collective ownership of the instruments, management by a common authority, and a division of products according to regulations based on custom. The products are not divided into parts corresponding to the factors of production, but the same man receives in every case wages, interest, rent, and profits. It is, in fact, only recently, with a new organization of industry separating these factors and assigning them to different industrial classes, that the factors of production have become commonly recognized as distinct either in production or in the distribution of products. Even to-day this separation is in a large portion of the industrial field not effected, and, consequently, there is not there that antagonism between classes elsewhere observed. The American farmer in our Northern States is usually land-owner, capitalist, laborer, and manager, and receives rent, interest, wages, and profits, and in the total product cannot distinguish one from the other.

The Guilds.—The old guild organization of industry and commerce united the factors of production in the same

man. The guild of the Middle Ages embraced apprentice, journeyman, and master, and regulated industry and commerce under governmental supervision. The master managed the business, owned the capital, and worked with his own hands. He received the entire product of the business after supporting the apprentices and paying his journeymen. Apprentices and journeymen were, it is true, laborers, and conflicts about wages arose not infrequently, although for long periods harmony prevailed, particularly during the best days of the guilds. There was a partial separation of labor from other factors, it is true, but not complete, and the man who supplied labor looked forward not without reason to the time when he should become capitalist, employer, and manager. This advance was a regular part of the guild system.

Growth of Complexity. — The present century has witnessed a great change in the organization of the productive factors, especially in commerce, manufactures, and transportation. We have a large class that furnishes labor only, another class that furnishes land and capital, and a third class that organizes and manages the undertaking. A modern railway corporation serves as a good illustration. The stock and bondholders furnish capital on which they receive interest; the stockholders carry on the business through managers, and for this service they hope to receive a surplus above interest, called profits; labor is remunerated by wages and by salaries, wages being the remuneration of subordinates and salaries of officials. Land is supplied by stock and bond holders, a part of their capital being exchanged for land, and consequently we have rent also, although not usually appearing as a separate factor. Yet land may appear as a separate factor when land is leased. No doubt railways in Baltimore and Philadelphia pay ground rents, annual returns for land itself, to those who do not own the improvements. We observe then all these various classes, and perceive that the product or revenues of the undertaking are divided into a corresponding number of portions. It can readily be understood how controversy re-

specting portions allotted to the different classes can arise. It is said that the business community is always in debt, because it carries on business with more or less borrowed money. The owner of the business enterprise is an organizer and manager, and receives wages of superintendence, a salary which he pays himself; he receives a return for risk, he pays interest and receives interest on any money he has invested, he pays wages and rent.

The Entrepreneur.—The one who manages business for himself was formerly called an undertaker or an adventurer, but the first word has been appropriated by one small class of business men and the latter has acquired a new meaning, carrying with it the implication of rashness and even of dishonesty. We have consequently been obliged to resort to the French language for a word to designate the person who organizes and directs the productive factors, and we call such a one an *entrepreneur*.

The function of the entrepreneur has become one of the most important in modern economic society. He has been well called a captain of industry, for he commands the industrial forces, and upon him more than any one else rests the responsibility for success or failure. A business which has achieved magnificent success often becomes bankrupt when, owing to death or other cause, an unfortunate change in the entrepreneur is made. The prosperity of an entire town has sometimes been observed to depend upon half a dozen shrewd captains of industry. It may be said, then, that the large reward these often receive is only a legitimate return for splendid social services. Such is the case, provided this reward is gained honestly and without oppression. Sometimes gains are partially legitimate and partially illegitimate. It is this mixture, observed by all in notorious cases, which has probably more than any thing else led to indiscriminate attacks on the profits of the captains of industry. It must be added that the fact that a man has gained legitimately as a return for services an enormous fortune does not morally entitle him to use it as he pleases, for morally a man

is obliged to use every thing he has, himself included, for the benefit of humanity, and if he has great powers to gain wealth this but measures the extent of the moral though not of the legal obligation to society.

The productivity of industry depends largely upon the harmonious development of all the factors. Sometimes labor is specially needed, sometimes capital, sometimes land; most frequently what is needed above every thing else is a better organization of productive factors. Organization is defective, and talent for organization and management is unfortunately rare.

The Division of Products.—The more efficient all the factors the greater the product to divide; but the share of each factor will depend upon the industrial strength of the class which supplies it as compared with the industrial strength of other classes. One great element in strength is what we may call "staying-power." The one who can wait while the necessities of the other press him makes the best terms in the division. It is on this account that labor organizations spring up. Capital is necessarily united under one management, and labor seeks to put itself under one management that it may gain like staying-power. An important element in determining staying-power, and thus industrial strength, is the relative rate of increase of the factors. If labor supply is increasing with relatively greater rapidity than capital it will be obliged to seek capital, and it cannot wait to be sought. Labor organization cannot in itself correct this difficulty, because it does not directly increase capital supply. Capital organization enables capital to exploit fully this unfortunate position of labor. If capital supply is abundant and labor scarce, capital must seek labor, and organization here again enables a factor to gain the full advantages of a favorable situation. If land supply does not keep pace with the growth of other factors, it can force them to give a large share of the product for rent. Better means of communication and transportation have recently enormously increased the available supply of agricultural land, and

agricultural rents have fallen. The supply of city land has not increased equally with demand, and urban rents have increased enormously all over the world, owners of building sites favorably situated in large cities often obtaining a large proportion of the entire product of the business carried on in buildings erected on their sites.

Division of Labor. — A characteristic feature of the organization of the factors in the present stage of industrial enterprises is what is commonly called a division of labor, but which might with equal propriety be called a co-operation of labor. Productive processes, especially in manufactures, are divided into minute parts, and one part, or perhaps two or three very small parts, given to each laborer. One man makes one little part of a watch, another a second, and there are so many little parts that it is said that it requires the co-operation at least of three hundred persons to organize properly a watch-making establishment. There are sixty or seventy distinct branches in the manufacture of a piano, and as many in the manufacture of a boot. But the word co-operation used shows that the men are working together. The parts divided must be united to form one whole. When the phrase division of labor is used we look at one side of the process; when the word co-operation, at another. Division of labor, machinery, and the use of natural powers, like water, steam, and electricity, are the chief part of the explanation of the marvelous increase in the productivity of the productive factors; one man performing the labor now which formerly required the labor of ten, one hundred, or even a thousand men.

Advantages of Division of Labor.—The advantages of a division of labor have been enumerated as follows: First, a gain of time. A change of operations costs time. Less time also is consumed in learning one's business, as the labor of each is more simple. Second, greater skill is acquired because each person confines himself to one operation and in that becomes remarkably proficient. Third, labor is used more advantageously. Some parts of an industrial

process can be performed by a weak person, others require unusual physical strength; some require extraordinary intelligence, some can be performed by a man of very ordinary intellectual powers, and so on, indefinitely. Each one is so employed that his entire power is utilized, and work is found for all, young and old, weak and strong, stupid and intellectually gifted. Fourth, inventions are more frequent, because the industrial processes are so divided that it is easy to see just where an improvement is possible. Besides this, when a person is exclusively engaged in one simple operation, he often reflects on this, understands it thoroughly, and sees how the appliances he uses could be improved. Laborers have made many important inventions. Fifth, capital is better utilized. Each laborer uses one set of tools or one part of a set, and keeps that employed all the time. When each laborer does many things he has many tools, and some are always idle.

Disadvantages.—The disadvantages of a division of labor should be noticed. It makes it possible to employ women and children, and the proportion of men employed decreases. Child labor and labor of women often displace men, and in American cities one sometimes finds fathers at home keeping house while children and wives are at work in factories. The home is thus demoralized, and the rising generation becomes weak in body and mind and depraved in character.

The dependence of man upon man is increased in the manner previously described, and this is frequently, at least, partially an evil. An international dependence arises which occasionally produces intense suffering. The so-called "cotton-famine" in the north of England during the American civil war illustrates this. America grew cotton, England manufactured it, and this seemed to work well until it became impossible for England to secure the cotton supply from our South, and the result was intense suffering of hundreds of thousands of working people in no wise responsible for the distant war.

Laborers are often rendered helpless on occasion of a

change of production, having learned to do only one thing, which is now no longer required, and having become too old to acquire a new skill. Dickens describes evils of this kind in his *Hard Times.*

When labor is rendered simple it loses both its attractiveness and its educational value at the same time. One can love his work when one manufactures a whole watch, bearing the impress of care and skill; but who can love the mere routine of raising a sledge-hammer and letting it fall for ten hours a day? M. de Tocqueville, in his *Democracy in America*, attributes the high average intelligence of Americans to the fact that labor, when he wrote, was not so divided with us as elsewhere.

Remedies for the Evils of Minute Division of Labor.—Education, particularly industrial training and popular work like that in which Chautauqua is engaged, labor organizations with their debates and discussions, political life with universal suffrage, and increased leisure, are all means whereby the evils of division of labor may be obviated. When labor becomes soulless, ceasing to minister to fullness of life, increased opportunities for development outside of the industrial field must be offered. Hours of labor must be shortened, but not necessarily equally. A clergyman or professor finds opportunities for the harmonious development of all his faculties in his occupation, and the reasons for a short labor day for factory operatives do not exist in his case.

Increased Productivity.—The tremendous increase of productive power, due to division of labor, has often been estimated more or less accurately. It has been said, for example, that modern inventions and discoveries in the great civilized nations have a productive power for each family of five persons equivalent to the labor of sixty slaves in classical Athens. Now, the civilization of Athens was based on slavery, and it is estimated that there were twelve slaves to a free Athenian family. Natural forces do for us five times as much as slavery did for Athens.

PART III.

TRANSFERS OF GOODS.

CHAPTER I.

INTRODUCTORY.

Transfers of goods are of two kinds : one-sided transfers and two-sided transfers of goods. Transfers of goods constitute a large part of our economic life. The business of one important industrial class, called merchants, consists in effecting transfers of goods. The operations in which merchants are engaged we call commerce. But commerce requires a multitude of other businesses to assist it, and among them are especially prominent the means of communication and transportation, such as public roads, canals, railways, telegraphs, telephones, and banks. These agents of commerce do not confine their functions to the assistance of merchants, but they aid the entire community in bringing about desired transfers of goods.

Exchange.—The part of political economy dealing with transfers is usually called exchange, because transfers are mostly two-sided, and it is with these two-sided transfers that we are especially, though not exclusively, concerned in the chapters which in the present work are placed under the title, "Transfers of Goods." Taxes, the chief kind of one-sided transfers, are more conveniently treated under finance, while bequest and inheritance may be better discussed under distribution, which is so powerfully affected thereby. Money and banks, however, which are treated in the present part of this book, are agencies for assisting in one-sided transfers as well as two sided transfers of goods.

Value.—Certain conceptions which quickly arise in exchanges must now be defined. The first is value. What do we mean by value? Value is a quantity of utility. Utility means capacity to satisfy human wants, and when we measure

this and make comparison between the quantity of utility pertaining to one good and the quantity of utility pertaining to another good we form the conception which we call value. When we say that this horse is twice as valuable as this cow we mean simply that it is twice as useful.

Utility and Value.—A distinction is often made between utility and value, which is based on a logical fallacy. We say water is useful but it has no value. When, however, we say water is useful we refer to water in general, but when we say water has no value we refer to a concrete quantity of water, as a pint of water in a pitcher. Now, a particular concrete quantity of water has no value, but it also contains no such quantity of utility that we are willing to give things in exchange for it which have cost an appreciable amount of labor or sacrifice. If we lose one glassful of water we readily obtain another, and the exertion of getting another glass is less than the exertion of paying even the smallest sum, one cent, for the glass. The utility is less than a cent. It has no value because the amount of utility is not great enough to be measured. If, however, a particular concrete quantity of water, as a gallon of water, brought into an Oriental city by a water-carrier, has an appropriable quantity of utility, then it has also value. Something can be procured in exchange for it.

Air, water, sunshine are useful, but as a whole they are not appropriable and not exchangeable, and consequently we cannot say that as a rule they have value in themselves.

Value in Use and Value in Exchange.—A distinction is also made between value in use and value in exchange, which does not seem to be well drawn. Value in use appears to be frequently used as equivalent to utility, but sometimes it is equivalent to subjective value as opposed to objective value, that is, value of a thing to its owner as opposed to the market value, or value which others agree to place upon it.

Elementary Value, Form Value, Place Value, Time Value.—Various kinds of value have been mentioned, of of which the following are specially important : elementary

value, form value, place value, time value. Elementary value refers to value of raw material. It is with the production of this value that agriculture, and other branches of extractive production, like mining, are concerned. Form value is due to form and shape given to raw material. Manufacturers produce this kind of value. Time value and place value are values due to the fact that goods have been brought to the place where needed or saved till the time when needed. The merchant produces these kinds of values. He adds properties to goods; namely, the property of being in the right place and of being there at the right time.

Values are merely relative, and consequently there can be no such thing as a general rise or fall of values. Let us suppose that to-day two bushels of wheat exchange for three of oats, and to-morrow for four bushels of oats. We may say that wheat has risen in value, but it is obvious that exactly in the same proportion oats have fallen in value.

Price.—Value expressed in money is called price. There can be such a thing as a general fall or a general rise of prices. A general fall in prices means an increase in the value of money, and a general rise in prices means a fall in the value of money.

Demand and Supply are expressions constantly used in political economy as also in practical life. It is said that demand and supply regulate price, but clear ideas do not usually accompany this expression. Supply and demand are constantly varying quantities of things. An increased demand may lead to increased supply, but an increased supply not infrequently goes ahead of actual demand and increases demand. The supply at a given moment may be a fixed quantity, but what is the demand? It is stated as desire accompanied by purchasing power. But this fluctuates continually. At one time demand may fall far short of supply; at another price it may far exceed supply and bring about an increase in supply. Demand and supply tend to equality, and this tendency operates through price. Prices are lowered and raised in such a manner that a rough kind of equilibrium between supply and demand is brought about.

Forces which influence Demand and Supply.—But there are all sorts of forces at work back of demand and supply, making these what they are. Any one who stops at demand and supply in his economic studies has failed to go below surface phenomena. Laws and customs all affect demand and operate on supply. Has religion any thing to do with demand? Certainly. Thanksgiving day increases the demand for turkeys, and Easter increases the demand for eggs. This increased demand operates in two ways. First, it raises prices, and that tends to check the demand; it is a counteracting tendency. Second, there is an effort to bring to the market an increased supply to satisfy the unusual demand, and occasionally the demand at existing prices is exceeded, when equilibrium is restored again by lower prices, which increase demand. Religious holidays affect labor supply. These holidays were so numerous in Brazil some years since that the national economy was injuriously affected, and through the efforts of the emperor these were greatly reduced. Labor organizations and other organizations of productive forces try to regulate supply and demand in a manner beneficial to themselves, and this is often, though not always, in a manner beneficial to the general public. To withhold supply for a time from those demanding it tends to raise prices, while to press it upon them leads to "slaughter-prices." What we may technically call an "urgency" of supply and "urgency" of demand are then important elements in determining prices. Fashion suddenly increases and as suddenly decreases demand, and by its rapid changes produces loss. Inheritance and bequest affect demand and supply through their action on the distribution of wealth, and this is the case with all laws of property. When the great bulk of national resources is widely distributed so that many have a competence, but few wealth, the demand for commodities and the supply of commodities to satisfy this demand will both be of a very different character from demand and supply in a time in which a large proportion of material wealth is in the hands of a few. In the former case there will be a large production of com-

forts and conveniences with resulting general well-being, as in the best days of the Roman Republic, while in the latter there will be wanton luxury laboriously supplied, as the feasts of the emperors, by searching sea and land for things difficult to obtain. This wanton luxury in Rome, so finely satirized by Juvenal, will be accompanied by loose morals, decay of civic virtues, general rottenness, while the magnificence of the few contrasts vividly with the beggarly wretchedness of the depraved masses.

Back of demand and supply we have such forces as these to consider: disposable surplus, for the amount I will give for a thing I want depends more or less on how much I can give; thrift, industry, and intelligence increasing demand, but at the same time, by application and by improvement, increasing supply with less actual outlay of economic goods for the attainment of a given result.

Cost of Production.—When production of commodities can be indefinitely increased, as is the case with cloth, stoves, manufactured articles generally, also agricultural produce, the cost of production is the factor among those acting on the surface of industrial society, as it were—that is to say, leaving out the deeper causes—which, apart from temporary fluctuations, regulates price. There is a price which will recompense the various productive factors. Production is carried on so long as that price for commodities can be obtained. If demand for any commodity admits at any time of a higher price, this is followed by increased production, *providing always that the movements of labor and capital are free with respect to the branch of production concerned.* If price falls below the price necessary to remunerate the factors, production will fall off, *providing capital can be withdrawn from the pursuit without large proportional loss.* Leaving out of view deeper causes, we may say price depends immediately on demand and supply, and secondarily, and in the long run, on cost of production, provided we have free competition; that is to say, provided the flow of labor and capital is unobstructed.

Freedom of Competition.—But we must observe this phenomenon: that precisely at the present time, owing to combinations and the growing importance of natural monopolies in an ever-increasing proportion of the industrial field, the movements of labor and capital are not free. The city of Baltimore pays fifty cents a night for each electric light burned in the streets. This is truly exorbitant, for Chicago supplies itself with electric lights for fifteen cents a night* each, and other cities for still less. Suppose, however, I wish to furnish the city with lights for thirty-five cents each. The opportunity to do so will not be given me, because those who furnish the lights have a *de facto* monopoly. We have then monopoly prices, and these are prices which do not depend on cost of production, but which are fixed at the most remunerative point. If price increases, demand falls; if price is lowered, demand increases. Intelligent monopolists will fix prices at that point which will yield largest net returns. A great fall in prices of service rendered by monopolists, like street-car corporations, will often be followed by such an increase of demand for services that net returns will increase. This brings about limited but insufficient control of monopolies.

Social and Individual Cost.—Cost of production must be viewed in two aspects: the social and the individual. The cost of production to society consists in efforts and sacrifices; to the individual, in what is paid for these efforts and sacrifices. What is the cost to society of a house? It is the days of labor and the materials used, with wear of tools and implements, or services and things which have been consumed. These are real wealth, and society has lost that much unless it is saved in the house. These services and things have been diverted from other possible uses. The individual cost to me is what I pay for it, say five thousand dollars, but society is neither richer nor poorer because that sum of money

*This figure is taken from a leading newspaper of that city. It has by some been called in question. Of course the value of the illustration does not depend on its precise accuracy.

has been transferred by me to a builder. That is an individual transaction. Social cost is what Adam Smith calls the "real cost" of production.

Fair Price.—A conception of fairness is powerful in its influence upon prices. During the Middle Ages the Church and also the public authorities attempted to regulate all prices by ideas of fairness. Fair price, *justum pretium*, was perhaps the economic topic most discussed for centuries, and in the writings of the most renowned of the philosophers of the Middle Ages, Thomas Aquinas, we find fair price treated with great learning in all its details. Excommunication was not regarded as too severe a penalty for violations of fair price. To-day, as has been stated, Irish land courts fix fair rents. To-day city authorities and State authorities fix fair prices for many services, as street-cars, gas supply, even cab service, railway transportation of goods and passengers. When public authorities furnish commodities and services they try to fix price by considerations of fairness. University trustees try to pay fair salaries to college professors, and fees charged by lawyers and professional men are discussed with reference to fairness, being pronounced by public opinion now fair, now unfair.

Read the author's article "Natural Monopolies and Local Taxation" in the magazine *Lend a Hand*, published in Boston, March, 1889; also chapters xvii–xxiii in his *Problems of To-day*. One of the best discussions in the English language of the theory of value and of the law of demand and supply will be found in Professor J. B. Clark's *Philosophy of Wealth*, chapters v and vi.

CHAPTER II.

MONEY.

THERE are three different conceptions of money; namely, the popular, the legal, and the politico-economic.

The Popular Conception.—What do people mean in every-day language when they use the word money? President Francis A. Walker has answered this question in the definition of money found in his excellent little work, *Money, Trade, and Industry*. It is as follows: "Money is that which passes freely from hand to hand throughout the community in final discharge of debts and full payment for commodities, being accepted equally without reference to the character or credit of the person who offers it, and without the intention of the person who receives it to consume it or enjoy it, or apply it to any other use than, in turn, to tender it to others in discharge of debts or full payment for commodities." This is what men ordinarily mean when they use the word money.

The Legal Conception is different. Whatever the law declares a legal tender is money in the legal sense. A legal tender is that which the law compels persons to receive in payment of debt.

The Politico-Economic Conception. — But political economists have framed still a third definition of money, which we may for lack of a better term call the politico-economic conception. Money in the politico-economic conception must perform all of the following functions: First, it must serve directly and immediately as a measure of value; but value measures value as length measures length. We must take as a unit a definite concrete value like our gold dollar, consisting of 25·8 grains of gold, nine tenths fine—that is,

nine tenths pure gold and one tenth alloy. When we say that a commodity is worth nine dollars we mean that its value or quantity of utility is nine times that of our "unit of value-measurement," consequently money in this sense must be composed of material in itself valuable. Second, it must serve as a medium of exchange. This is the principal function of all kinds of money. Commodities are not usually directly exchanged for one another, but indirectly through the medium of money. The farmer selling his corn for money, and with this money buying sugar, really exchanges corn for sugar, the money serving merely as a convenient medium. Third, money in the present sense must serve as a means of making payments, and this is facilitated usually by having a legal-tender quality attached to it. Payments are often one-sided transfers of goods, and on that account the third function differs somewhat from the second. Fourth, money in the politico-economic sense must serve as a store or receptacle of value. It must store up value so that it can be transferred from place to place and time to time. Roman gold money, preserved for two thousand years, has brought value down to our own time; and gold money taken across the Atlantic bears with it stored-up value.

These distinctions render it easy to answer otherwise perplexing questions. Are national bank-notes money? In the popular sense, undoubtedly, but not in the legal sense nor in the politico-economic sense. Are national treasury notes money? Yes, in the popular and legal sense, but not in the third sense. Gold money in the United States is money in every sense of the word.

Functions of Money.—Money has been called one of man's greatest inventions, ranking with the alphabet. Certainly present civilization would be impossible without it. Its services are so obvious, however, that it is not necessary to dwell upon them. The reader has only "to look and see." Exchange would be awkward and tedious without money, and now that labor is so divided exchanges form a part of our daily life. We enjoy few material good things which

have not been exchanged in one way or other many times before they reach us. Without any medium of exchange the man with a horse who wanted a coat instead would be obliged to hunt for a tailor who desired a horse, and after finding him the exchange would very likely be defeated owing to inequality of values of articles to be exchanged. The coat desired might be only half as valuable as the horse, and the tailor might have nothing else wanted by the owner of the horse. Simple illustrations like this can be continued indefinitely. We can also keep values easily in mind and compare them readily when we have one common measure. Money enables us to travel, carrying stored-up value with us, and assists in the accumulation of capital by providing, as it were, a receptacle for it. If we raise more potatoes than we need, we can keep them only a short time, but we can exchange them for money, which can be kept. Thus we save our surplus. Money is a form of capital which has been called free. It can by exchange be turned hither or thither, being ready for the best use which may offer.

Qualities Desirable in Money.—Many things have been used as money during the world's history. Among them the following may be mentioned: Cattle nearly everywhere; furs, especially in northern countries; oil; wampum among the early New Englanders; tea at Russian fairs; tobacco, as in Maryland and Virginia; iron; copper; all the baser metals and the two precious metals, gold and silver. All civilized nations have finally found gold and silver best adapted among all the metals for money, and they are so used to-day in every part of the globe. The following are reasons why gold and silver are especially suitable for money-metals: They are universally desired, and every one is willing to accept them. They can be used not only in the arts but for ornaments, and this helps to give them stability of value, for if their value begins to fall the demand for them for other purposes than money tends to increase, and this prevents so great a fall in their value as would otherwise take place. Gold and silver are desirable on account of the

vast quantities already in existence. The gold in coin and bars, and silver in coin is now estimated to be worth some six thousand millions of dollars, and compared with this the yearly production is small, ranging at present from about two hundred and ten millions to two hundred and thirty-five millions of dollars.

The production of one mine in one year, even if extraordinarily large, produces a comparatively small effect, being like a glass of water thrown in a pond. It must diffuse itself over a vast surface.

Their high specific value—that is, high value in proportion to weight—adapt them to use for money, because easily transportable. Their value at different places widely separated is more nearly equal than it could otherwise be. Durability and indestructibility are valuable qualities, while extreme divisibility without loss of value makes it possible to measure any desired value, great or small. Malleability renders coinage easy, and homogeneity makes any one ounce or pound just as valuable as any other pound or ounce. They are readily recognizable by their color, their peculiar ring, and by other attributes, and thus they are adapted to popular use. No other metals seem in like measure to combine so many desirable qualities.

Paper money has been extensively used. Paper money consists of promises to pay on demand, which people are willing to receive in place of metallic money. They are usually promises either of banks or of governments. People take them because they believe the promise will be kept, or because they think that others will accept them, or because they have been made a legal tender, and people must accept them for debt, or because, as usually happens, they are receivable for taxes. Where this confidence in paper money is complete it is preferred to precious metals, because more convenient. If any one will read all that is engraved on the paper money circulating in the United States he will perceive its nature, and he will discover that it is of two kinds: notes of national banks and notes of the federal government.

Adam Smith has compared paper money to a road through the air. It saves the use of the precious metals, and capital, otherwise employed as a medium of exchange, can be used for other productive purposes. It is thus, he says, as real a saving as if we could travel through the air and use the ground now occupied by roads for agriculture and other purposes. The "greenbacks," or paper money of the United States, now amount to a little over three hundred and forty-six millions of dollars. They perform the function of gold and silver even better than gold and silver—in foreign ports, like Hamburg, often selling for a premium—and this saves the country this amount of capital. To withdraw them from circulation would be simply a waste.*

"Inflation."—Certain dangers connected with paper money issued by government must not be overlooked. It is easy to set the printing-presses at work and to issue an illimitable amount of money. This is much easier than taxation, and has often promoted waste and extravagance. Besides, only a limited amount can be kept in circulation at its nominal value, and when this is exceeded it falls below "par," which means that paper money will no longer purchase as much as the same amount of gold and silver money. This produces great inconvenience and suffering, because the inferior money drives the better out of circulation, and prices rise on account of the large supply of money. This diminishes the value of fixed salaries and of all fixed incomes, of interest-payments on all debts and of wages, until these rise correspondingly, and this takes a long time. It is an inconvenience in international trade, because foreign countries do not recognize the legal tender quality of paper money and will not receive it for taxes, and because foreigners lose faith in a paper money which is not kept at par with the precious metals.

Is Paper Money Safe?—Some have so keenly appreciated the dangers of paper money that they have entirely op-

* The writer has paid a premium for French paper-money in Geneva, Switzerland, where he could have obtained gold money for par.

posed its use. This does not seem reasonable. Paper money, like other instruments of a high civilization, should be employed with care; but the damage which the best instruments and appliances may do when unskillfully handled ought not to induce us to renounce the advantages which they offer. Rather we ought to acquire prudence, and this is the course which modern nations are actually pursuing. Several countries are now using paper money, and our own among the number. When Congress decided to leave three hundred and forty-six millions of "greenbacks" in circulation, alarm was expressed in many quarters; but experience has proved that apprehension was groundless. It may be said that paper money should always be kept at "par," that is, government should always pay coin for paper on demand. When this is done paper money is said to be redeemable; when it is not, paper money is said to be irredeemable. Irredeemable paper money is bad; redeemable paper money good. Attention should then be directed to this consideration: How can paper money always be redeemed? or, how much can be issued with safety? Possibly the amount the people will keep in circulation at par may have some relation to the gross revenues of government, for these are payable in paper money, and consequently in making these payments paper money is as good as gold. The gross revenues of our various governments, federal, State, and local, payable in paper may be three times the amount of our "greenbacks." Perhaps we may say that for a prosperous community the paper money which the people will gladly absorb and prefer to gold and silver is equal to one-third of all government revenues payable in this kind of money. Possibly, under certain circumstances, more can be kept in circulation. Only careful experimentation can determine, and an adequate "reserve"—that is, supply of coin for payment of paper on demand—should be maintained. Our experience in the United States is an instructive example of economic experimentation.

The Amount of Money Needed.—The question has

often been asked, How much money does a country need? It has been replied, "It makes no difference. If the supply is abundant, prices will be high; if the supply is small, prices will be low and the same amount of money will go further. A little money will do the work of money as well as a large supply." It is true that there is a relation between the supply of money and its value, and that large supply means small value and small supply large value, but the conclusion drawn does not follow. When the amount of money is small barter is always extensively used, and this is an inconvenience, obstructing trade and causing loss. Enough money is needed so that it can be used in all ordinary transactions of life and to enable us to avoid a too extensive employment of barter. But one of the most common business transactions is the payment of wages. We need enough money so that it will not be too valuable to use for that purpose; in other words, the day's labor of an ordinary laborer should not be inferior to the value of a piece of legal tender coin which can be conveniently carried. We need, then, enough money so that the value of a coin of convenient size shall not exceed a day's wages of an unskilled laborer. But it is desirable that money should be still cheaper, so that wages may be divided into parts. It is not necessary for money to be cheap enough to enable us to make our smallest purchases with full legal tender money, because in addition to full legal tender money all countries have subsidiary coins, like our fractional parts of a dollar, containing less coin in proportion to nominal value than full legal tender, and legal tender only for a small amount, with us ten dollars, and minor coins like "nickels" and "coppers" legal tender for still less, with us for twenty-five cents. Silver dollars fulfill the conditions laid down, but gold does not. Gold is more convenient for large payments. The two supplement each other.

Fluctuations in the Volume of Money.—The ground just given for the need of a certain amount of money, to be determined by circumstances, is not the only consideration

to be kept in mind in determining the amount of money required by a country. After the above requirement has been satisfied it may make comparatively little difference whether we have much or little, but it makes a great deal of difference whether we increase or decrease the amount. It is not the "much or little," but it is the "more or less," that is of vital concern. Nothing produces more intense suffering than a decrease in the amount of money, and this is on account of the connection between past, present, and future in our economic life. He who treats every economic question as if every day were a period of time apart by itself has scarcely taken the first step toward the comprehension of economic society. Obligations have been incurred in the past, and these are payable in the present or in the future. Now, to decrease the amount of money raises the value of every debt and adds to the burden of every debtor, public and private. It increases the value of notes, mortgages, railway bonds, and local, State, and federal bonds. It enriches the few at the expense of the many. An increase in the amount of money does not have the reverse effect if it is small, because on account of the growth of wealth, the continually diminishing use of barter, and the extension of trade into countries formerly outside of international commerce, the opening up of new countries in Africa, Australia, and elsewhere which need a supply of money, the value of money tends to augment unless there is a growth in the supply. If the amount remains stationary, the creditors are enriched at the expense of the debtors. If the amount of money is arbitrarily increased, so that the value of all debts may fall, it amounts to virtual robbery of the creditors. When arbitrarily the amount of money is decreased it amounts to virtual robbery of the debtor class.

President Walker has come to the conclusion that while it is dangerous to increase the supply of money arbitrarily, as by the issue of paper, it is a fortunate thing if the amount of money slowly and continually increases without direct government action, as by the discovery of new and more

fruitful gold mines. His reason for this is that the business community is always a debtor community, while the idle classes are creditors, and that a slight depreciation in the value of money brought about by natural causes, and which consequently does not destroy confidence on the part of capitalists, gives a "fillip" to business and makes it prosperous. It may also be urged that with the progress of improvements in industry prices tend to fall, and that unless money increases in amount those who take no active part in these improvements nevertheless gain the benefit of them.

Silver Question and Bimetallism.—The discussion of the amount of money needed by a country naturally brings us to two topics, called the *silver question* and *bimetallism*. Silver and gold are both used as money, and as government coins them it determines the ratio in which it will do this. A ratio which has been commonly established has been one to fifteen and a half, which means that in full legal tender coins one ounce of gold shall be equal to fifteen and a half ounces of silver. This is the European ratio, but the United States has established the ratio of one to sixteen. The European ratio was maintained for about seventy years during this century by the action of a combination of countries called the *Latin Monetary Union*, in which Belgium, France, Switzerland, and Italy were most prominent. These countries opened their mints for both gold and silver to every one, and coined money in the ratio of one to fifteen and a half. Every one who had gold or silver could have it changed into money. About 1873, however, Germany, having formerly used silver, determined to replace it with gold, and thus threw an immense amount of silver on the market, while the demand for gold was correspondingly increased. Other countries pursued similar courses, our own country demonetizing silver, that is stopping the coinage of silver, making it only a subsidiary coin, instead of a full legal tender, as it had been. Like Germany, we introduced what is called gold *monometallism*. Gold alone was henceforth to be converted into coins for any one who offered it to our mints. This action alarmed

the countries of the Latin Union, and they suspended the coinage of silver. To add to the confusion, large discoveries of silver had increased considerably the supply of silver, and the old ratio was destroyed, silver falling in a few years so much in value as measured in gold that it required twenty ounces and more of silver to purchase one ounce of gold. All this naturally increased the value of money, and so the value of all debts, producing great distress in Germany and in all other industrial lands. But the increase in debts was only a part of the mischief. Oriental and South American countries use silver, and trade was easily carried on with those countries so long as gold and silver would readily exchange at an established ratio, but when the ratio began to fluctuate an uncertain and demoralizing element was introduced into trade, which rendered it highly speculative, and entailed loss upon the business world. The merchant in Liverpool who sold goods to a merchant in India agreed to receive a fixed sum of silver money, but in England it was necessary to turn this into gold, and a fall in the value of silver might bankrupt him.

Bimetallism has been proposed as a remedy. This means that at a fixed ratio government must coin all gold and silver which any body desires to have coined. One country alone cannot introduce bimetallism, because other countries might send to it all their silver and take away its gold, just as Germany evidently contemplated draining France of at least a large portion of her gold. Experience seems to demonstrate that national bimetallism is out of the question, and no scientific economist favors it. Economists have, however, generally come to favor what is called international bimetallism. International bimetallism means bimetallism based on an international agreement like that which obtained in the case of the Latin Union before 1874. It is urged that all countries should agree to coin gold and silver at the ratio of one to fifteen and a half. If the principal commercial countries of the world, say France, Germany, England, and the United States, should enter into such an agreement, there

is no doubt that the ratio could be maintained. Gold and silver are used principally for money, and owners of gold and silver would be obliged either to have it coined at the government ratio or sell it on the market for use in the arts. The arts absorb only a small proportion of the annual product, to say nothing of the enormous existing supply of gold and silver money in the world. Governments then are in the position of monopolists, and by agreement could maintain a fixed ratio. The advantages of this would be to insure a more adequate supply of gold and silver and to facilitate business transactions between gold-using and silver-using countries.

A powerful creditor class in England, which gains by an appreciation in the value of money, it has been stated, has been powerful enough to keep England from joining in the action proposed by the United States and France for the establishment of international bimetallism, and Germany has refused to co-operate unless England's aid could be secured. Consequently up to the present it has not been possible to establish international bimetallism.

The "Bland Bill."—A free coinage of silver, that is, of all silver offered, now exists in no country which uses gold, but the United States has introduced a limited coinage of full legal tender dollars. By the so-called "Bland Bill" of 1878, at least two million dollars' worth of silver must be coined every month by the mints of the United States, and not more than four million dollars' worth may be coined, and in the ratio to gold of sixteen to one. The silver is bought at the market price, and the government makes the difference as a profit, amounting to several million dollars a year. Alarm has been expressed because it has been feared that silver will drive gold out of circulation. Up to the present time this fear has proved as baseless as the anxiety about the greenbacks. The gold coins and gold bullion, in mints and assay offices and ready for coinage, amounted to over seven hundred millions of dollars on July 1, 1888, while the silver money in the United States amounted to a little over three hundred and

seventy-five millions of dollars, and this included over seventy-five millions of subsidiary silver coins. It is difficult to see how so small an amount of silver can throw out of circulation so large an amount of gold. We are now coining about thirty million silver dollars a year, and it will take over ten years for the amount of silver to become equal to the amount of gold which we now have, but we are also coining gold, and that at the rate of twenty-eight million dollars per annum. The per capita circulation of full legal tender silver in France is about fifteen dollars, while with us it is about six dollars. At the present rate of coinage, if population should not increase at all, it would take over fifteen years for us to secure as large a per capita silver circulation as France. At the same time it is not possible to view the future without some apprehension. It would be a serious misfortune to the United States to be reduced to an exclusively silver basis while the chief commercial and industrial centers of the world use gold as a money basis. A recent Parliamentary Commission in England has recommended that without international agreement England should use more silver, and it is possible that the extreme apprehension about the fall of silver may fail of realization as did the apprehensions about the fall of gold after the discovery of the gold mines in Australia and California about 1848. The United States has introduced a convenience in gold and silver certificates. Gold and silver coin may be deposited with the United States and certificates received. The gold and silver coins are repaid whenever the certificates are presented, and in the meantime the paper certificates are more conveniently and safely carried or kept.

Read chapters vi and vii in Walker's *Money, Trade, and Industry* for an able presentation of scientific bimetallism. The grounds for gold monometallism are well presented by Jevons in his *Money and the Mechanism of Exchange.*

CHAPTER III.

CREDIT AND THE INSTRUMENTS OF CREDIT: BANKS AND CLEARING HOUSES.

The development of economic life has been divided into three stages with respect to the mode in which goods are transferred. The reader will remember that these are called truck-economy, money-economy, and credit-economy. The transfer of goods becomes continually easier as we pass from one to the other, and as we make progress in any one of the periods. Probably money is the most remarkable contrivance for facilitating transfers, but, next to money, credit and its instruments have rendered greatest service in that part of our modern economic life specially concerned with transfers of goods. Credit is defined by John Stuart Mill as "permission to use the capital of another person." Professor Roscher defines credit as "the power to use the goods of another, voluntarily granted in consideration of the mere promise of value in return." Credit has also been defined as "confidence in the ability of another to make a future payment." None of these definitions seems quite adequate. Credit has at least two economic meanings; namely, a commercial transaction of a certain kind, and the ability to enter into such a transaction. There are three elements in a business transaction to which we apply the term credit: first, the present transfer of goods; second, the use of the goods transferred; third, the future retransfer of the goods or an equivalent, that is, repayment. Professor Knies, of Heidelberg, has defined credit as merely "a commercial transaction between two parties in which the services or the value rendered by the one falls in the present, and the counter-service or counter-value of the other in the fut-

ure." But this seems to err on the other side, by neglecting the element of confidence which enters into credit transactions; not necessarily and not always confidence in the character of a person to whom credit is given, that is, to whom the ability to enter into a credit transaction is accorded, but confidence in some person, it may be a surety, or in some thing, as valuable things deposited as "collateral," which may be sold if the counter-service is not rendered. The person who transfers goods in a credit transaction is the creditor; the person to whom they are transferred, the debtor; the amount transferred, the debt.

Instruments of Credit.—Growing out of credit transactions we have various documents, or written evidences of these transactions, called instruments of credit, which are used as substitutes for money, and which have in great commercial centers for large transactions so far displaced money that it only remains as "small change."

Among these instruments the simplest and most extensively used is the check. It is simply an order to a banker with whom one has money on deposit to pay to a person named or sometimes "to bearer," a sum of money. Except in retail trade and payments of wages, payments for goods and services are usually made by checks, and wages are sometimes paid in checks, and goods bought at retail, especially when considerable in amount or when the purchases of a month or more, are paid for by checks. As an instance of the extent to which checks are used the author may mention that in two years he remembers to have received money for services only twice, and then it was something so unusual that it seemed a strange experience. On the other hand, he probably makes half his payments in money.

Bankers use checks, and when a banker gives a check on another banker it is usually called a draft. If the bankers reside in two countries it is often called a bill of exchange.

Promissory notes are promises to pay, under conditions named, at the expiration of a certain period. These are signed by the debtor. A person buys goods and "for value

received" promises to pay the person of whom the goods are bought. But the seller may also "draw on" the buyer by means of a bill of exchange, also called a draft. Let us say, A. is the seller, B. the buyer. A. then writes out an order to B. to pay to himself or a third party, as C., "for value received," the amount of the debt. A., the creditor, signs the bill. If B. acknowledges the debt, and is ready to agree to pay it, he writes on the bill when presented "Accept" and signs his name. It then becomes binding, and the merchant who does not pay his drafts when they fall due becomes bankrupt. A check or bill may be transferred by indorsement. A person to whom payment is to be made, the payee, writes his name on the back with an order that the money be paid to a fourth party, D., the indorsee. The payee who indorses the instrument of credit is the indorser. The indorsee may assign the instrument to still another party, as E, by a new indorsement, and he then becomes indorser. This may be continued indefinitely, and thus the instrument may pass from hand to hand in place of money, each one who indorses it becoming responsible provided that no previous indorser can be made to fulfill his obligation. Other terms are readily understood, as payer, the one who must pay; drawer, the one who draws an instrument of credit; drawee, the one on whom it is drawn.

Book credit is extensively used. When goods are transferred a record of it is kept, or, as we ordinarily say, the goods are "charged," and a bill is afterward sent for the amount. A vast amount of credit is granted in this simple, old-fashioned way, both in wholesale and retail trade. Recently large mercantile establishments have tried to abolish book-credits, and it may not be too much to say that there has been a general movement toward restricting it and defining its limits more accurately.

Advantages of Credit.—The advantages of credit may be thus summarized: 1. Credit furnishes a more perfect and convenient means of payment in large sums and between distant places than the precious metals, saving time and

labor. This is effected by means of notes, checks, and bills of exchange. It is thus that only small sums of money are sent from one country to another in international trade. Only balances are paid in money. If some London merchants owe New York merchants a million pounds and other New York merchants owe these London merchants a million pounds, it is obvious that no money need leave either country. The London merchants will send orders to their New York debtors to pay their New York creditors. This is the simplest kind of cancellation of indebtedness. In actual life it is more complex, but the principle is the same. If the London creditors of New York merchants are not the same as the London debtors, the debtors could buy orders of the creditors and send them to New York. If New York merchants owe London merchants, it is possible that Paris merchants may owe New York merchants an equal sum, while London merchants are in debt to Paris merchants to the same amount. By exchange of orders all debts could be paid. This is called *arbitration of exchange.* Naturally a class has arisen which deals in these instruments of credit, and this is the class of bankers and brokers. Debtors and creditors both resort to them. Bankers and brokers are the middle-men between debtors and creditors.

2. Credit takes the place of corresponding amounts of gold and silver. This is a saving, enabling us to employ the precious metals for other useful purposes.

3. Capital is employed more productively. He who possesses capital, but is for any reason unable or unwilling to use it, transfers it to another for compensation, and thus both are benefited as well as the public economy. Other things being equal, it is given to him who will pay the most for it, and in a normal condition of things this is the one who can employ it most productively.

4. Credit enables those who have business qualifications and no capital, or inadequate capital, to engage in business and to employ their talents for their own benefit and for the benefit of society. Many thus start without capital, and in

the end become capitalists themselves. Credit has been the starting-point of many of the large fortunes now existing. Credit brings together in numerous instances capital without business qualifications or inclination for business and talent without capital, and thus may be said to be not without influence in uniting capital and labor harmoniously. This is particularly the case with those institutions which supply capital to the poorer classes, like the German co-operative credit-unions, which furnish artisans, mechanics, and small traders with capital, and with American building associations, which furnish the same classes with capital for the construction of homes.

5. Credit gathers together the smallest sums, particularly by means of savings banks, and these small sums forming a large aggregate are productively employed by joint-stock companies and other concerns. Capital is thus concentrated but its returns are scattered among the people. Credit encourages capital accumulation and promotes thrift. Credit in this manner gives employment to small accumulations as they are made, and this helps men to provide for emergencies and for old age. Other advantages of credit will suggest themselves to the careful observer.

Evils of Credit.—The dark side of the credit-economy must not be overlooked. It continually encourages extravagance, and this is a fruitful source of fraud and embezzlement. Credit promotes precarious speculation, because those who engage in it have little of their own capital to lose, and are over-reckless with the capital of other people. Our entire land is strewn with the ruins of businesses wrecked by men who have mismanaged the property which unwise credit gave into their hands. As credit sometimes enables the poor man with gifts recognized and favorably situated to become an independent producer, it frequently enables the one already producing on a vast scale to extend his gigantic operations and crush out men who have been independent producers.

It has been said that all "consumptive credit," that is,

credit to enable one to spend money for one's personal gratification, or for personal use in any way, is bad, while productive credit, credit for carrying on a business, is good; but the line cannot be so sharply drawn. Consumptive credit frequently leads to extravagance, but it also has enabled many a young man to develop personal powers, and to become a great artist or scholar, while, as just seen, productive credit frequently causes loss.

Banks and Clearing-Houses.—Bankers have already been described as men who go between borrowers and lenders, or as middle-men in credit transactions. They are sometimes called dealers in credit, and there is little that they do which is not in one way or another connected with credit. But banks are not mere agents. They have a capital of their own which serves the purpose of a guarantee fund, and they receive money which their customers deposit with them, and mingle this with their own, gaining exclusive control over it all. They become the debtors of the depositors and the creditors of those to whom they lend money. Their source of profit is not chiefly their own capital, but the capital deposited with them. Sometimes they pay no interest, and if they pay interest they charge more, the difference constituting their profit.

Formerly banks in the United States nearly all issued notes which circulated as money, and this was regarded as their principal business. Now only national banks are allowed to issue notes, and they must deposit bonds at Washington as security for this circulation in addition to paying a tax for the privilege. All governments in civilized countries have greatly restricted the power of banks to issue circulating notes to serve as money, and the number of banks that find a source of profit in the production of bank-money is constantly diminishing. Perhaps some day all governments will, as has been advocated by many able thinkers, reserve to themselves the exclusive right to issue paper money.

Clearing-houses are labor-saving institutions originally

contrived by employees of banks. Banks in a city have continual dealings with one another. A customer of a bank deposits with it all his checks, no matter on what bank drawn. It consequently happens that a bank in Baltimore, for example, will receive checks every day on all the other banks, while all the other banks receive checks drawn on it. Formerly there was continual running back and forth. A runner from each bank went to all the other banks. Now the representatives of all the banks meet in one common place, and exchange checks, drafts, etc., and only the differences between the sums due and the sums which a bank owes are paid. If more is owed to a bank than is due from it to the other banks, it receives this difference from the clearing-house; if it owes more than is due it, it pays the difference. The sums due the clearing-house and the sums which it must pay of course balance perfectly, and it is left without any money on hand.

The clearing-house statistics illustrate the inadequacy of money to do the business of the world. The total transactions of the clearing-houses in the United States for the year ending September 30, 1888, amounted to over fifty thousand millions of dollars, or more than thirty times all the money in the country, bank-notes included; for the money in the country at the time was only about sixteen hundred millions of dollars.

Walker's *Money, Trade, and Industry*, chapters x, xi, xii, has a good account of banking. See also his *Political Economy*, advanced course, in Part VI, chapters xi and xii. An excellent account of banking in the United States is given by Mr. John Jay Knox in his reports as Comptroller of the Currency for 1875 and 1876, printed in the United States finance reports for those years.

Bagehot's *Lombard Street* is instructive, as is also Goschen's *Foreign Exchanges*. Gilbart's work *The History, Principles, and Practice of Banking*, published in two volumes

in Bohn's Library, is an interesting production written by a successful banker, Mr. Gilbart having been for many years Director and General Manager of the great London and Westminster Bank. Morse on *Banks and Banking* is a standard law-book on the subject.

The author has written an account of German "People's Banks" in the *Atlantic Monthly* for February, 1881. It is entitled "German Co-operative Unions." Some useful suggestions about transfers of capital will be found in J. B. Clark's *Capital and its Earnings*, a monograph of the American Economic Association, 1888. Read an article on clearing-houses in Johnson's *Cyclopedia*, by W. A. Camp, President of the New York Clearing-House. A good account of the London and New York clearing-houses is published for fifty cents by the Financier Company, 40 Broad Street, New York.

CHAPTER IV.

THE REGULATION OF INTERNATIONAL COMMERCE.

Objects of Regulation.—Nations have always regulated international commerce, and in an examination of history we discover three motives for this regulation. First, ancient nations, as the Greeks, Hebrews, and others, dreaded contact with foreigners, and regulated commerce in order to restrict it and reduce intercourse with other nations to a minimum. Second, nations have regulated international commerce in order to make it a source of revenue. Sometimes, as in Athens, of classical antiquity, exports and imports have been equally taxed. England at present taxes only imports, but taxes them with a view to a revenue for the support of the national government. Third, international commerce has been regulated by nations in order that the force of foreign competition might be weakened and the home producers encouraged. This is usually accomplished by means of taxes on imported commodities when commodities of the same kind can be produced at home. These taxes are called protective, and collectively they are spoken of as a protective tariff. As foreign commodities are liable to special taxes, it is supposed that thereby the domestic producers will receive special encouragement. They are "protected" against foreign competitors.

Protection.—It is intended in this chapter to discuss only regulation of international commerce of the third kind. This regulation is called protectionism, and it will at once be recognized as a vast subject which could easily be made to fill several volumes like the present. It will here be possible merely to mention the main points in the controversy between those who believe in this kind of regulation, protectionists,

and those who oppose it, free-traders; to comment briefly on some of these points; to bring forward some general considerations which ought not to be overlooked, and to say a word in conclusion in regard to tariff reform, on which all should unite. It is hoped thus to give a general view of the tariff controversy and to prepare the reader for further study of the subject in works mentioned at the close of the chapter.

Arguments of Protectionists.—It is argued in favor of protectionism that it promotes nationalism, and this is held to be a good thing. It is urged that domestic trade draws the citizens of a country together, while international trade is cosmopolitan and tends to their separation. Protectionists maintain further that protective tariffs are necessary in order to build up a diversified national industrial life. They claim that there exist in a new country like the United States many natural industrial advantages of which the inhabitants cannot avail themselves unless they are at least temporarily protected. Government should, they say, foster infant industries in order to develop our natural resources and to produce diversity in industrial pursuits. The diversified-natural-industry argument and the protection-to-infant-industries argument are thus supplementary. It is held that older nations with their superior capital and acquired skill will break down new pursuits in their infancy in order thereafter to have the market to themselves. Closely connected with this is an argument based on military grounds. It is often thought by protectionists that industrial national independence prepares a nation better for international war. The home-market argument for protection naturally follows. A home market is claimed to be superior because it is alleged to be a surer market. Producers are less likely to be deprived of it by war and other emergencies. It is, moreover, urged that it is beneficial especially to the farmer, because it saves the expenses of transportation of products to foreign lands. It has also been maintained by the distinguished American economist, Mr. Henry C. Carey, that a country

can remain permanently prosperous only on condition that what is taken from the soil should be returned in manure and other kinds of fertilizers, and that this will be accomplished only when products are consumed at home.

Finally, protection has been advocated in the United States, especially since about 1840, when the labor movement began to assume prominence, on the ground that it has been the cause of higher wages in the United States than in European countries, and that it is necessary to maintain these high wages, which are said to be one main cause of our higher civilization.

Arguments of Free-traders.—It is frequently alleged that protective tariffs are a violation of an assumed natural right of every man to buy his goods where he will and to sell his products wherever he sees fit, untrammeled by human laws. This argument, based on natural right, may be dismissed as a "dogmatism in disguise," as an English jurist calls this sort of reasoning. High-sounding phrases are substituted for arguments, and under their cover opinions are thrust upon others without a real effort to substantiate them. How prove the natural right? It does not appeal to the majority of mankind as a thing right in itself to buy and sell where one pleases, regardless of the common weal, and all history is against such exorbitant claims of individualism. It appears to most men that the public welfare must decide questions of this nature. Protection is thus called robbery, because it violates an assumed natural right. It is much to be desired that arguments of this sort should cease to be heard so frequently.

It has been claimed that the protective tariffs in the United States are unconstitutional. It would be most unfortunate and anomalous if nowhere in our country were lodged the power to pass such regulations regarding international commerce as might appear to be required for the promotion of the public welfare. But this argument is idle. It does not correspond to the opinion of our best jurists, and it is very certain that we shall never see a Supreme Court in the United

States which will venture to pronounce protectionism unconstitutional. Protectionism has been called socialism, but this epithet of malignity is so generally applied to whatever a person, incompetent to argue a cause, does not like that it will scarcely terrify any one.

The really able arguments of free-traders are those which aim to show that protectionism on the one hand fails to accomplish its ends, or is needless for the accomplishment of the ends it contemplates; on the other hand, actually does accomplish positive harm. It is denied that protectionism is necessary to foster nationalism, and modern experience presents strong testimony to support this denial. During the past fifty years international commerce has expanded marvelously, and international communication has been in every way facilitated, while at the same time we have witnessed a remarkable growth of national feeling all over the civilized world.

It is not clear that protective tariffs are necessary to produce a diversity of pursuits in a great country like the United States. It is admitted that a purely agricultural nation is not likely to progress rapidly; but it would seem that our enormous extent of country, our varied climate, our natural gifts of all sorts, had in themselves amply provided for sufficient diversity, and it can scarcely be maintained that one or two pursuits, more or fewer, can be of importance. A vast number of pursuits means widely extended division of labor, and this is by no means an unqualified blessing.

The argument for protection on the ground that it is a benefit to the laboring-man does not seem to the writer conclusive. When this argument is analyzed and answered in detail, it is seen to involve a discussion of many complex economic problems. One consideration only will be suggested in this place. Labor comes in competition with labor, not with commodities. Labor desires commodities, and the more commodities it receives the better. Now, if it is desired to protect labor, a tax ought to be put on imported labor, and labor ought thus to be rendered scarce. If this were done, then those who desire labor would be obliged to pay heavily

for it, as actually happened in England after the "Black Death" in the fourteenth century had killed off a large part of the laboring population. If it is desired to benefit labor, it would seem to the author that after importation of labor has been taxed, and labor thus rendered scarce and dear, the importation of commodities should be encouraged in order that labor might secure an abundance of them cheaply.

It is maintained by free-traders that protectionism is especially injurious because it diverts industry from a more to a less productive channel. It is held that industrial forces, if let alone, will seek those fields which yield largest returns, and that if government artificially induces them to take another direction the factors of production become less fruitful and the national economy suffers.

It is, moreover, alleged that protectionism fosters monopolies, because it shuts off international competition. Recent combinations of domestic producers, as seen in trusts, which control so large a portion of the industrial field, would seem to support this allegation. It is certainly taken for granted that if foreign competition is shut off or lessened home producers will still compete. That has been one of the fundamental arguments of protectionists, but now we find home producers combining to put an end to home competition. It is scarcely too much to call this an abuse of the principle of protection.

Some General Considerations ought to be kept in mind in tariff discussions. First, its importance is exaggerated. We find a country like England prosperous under free trade; we find countries like France and the United States prosperous under protection. It is of real but not of vital importance. Domestic trade exceeds in its aggregate amount in the United States almost immeasurably foreign trade. The domestic trade of the Mississippi valley alone is far greater than our entire foreign commerce. It is much to be desired that other economic questions should be more discussed. Local politicians dispute about the tariff excitedly, and divert attention from local abuses. The proper management of gas-works,

water supply, electric lighting, and street-cars, is of more importance to the people of New York, Boston, or Baltimore than the tariff controversy, but how much do we hear about these local questions from our politicians? The place to begin reforms is right at home, at our own doors. When we have reformed the greater abuses of our municipal governments, we shall very well know how to reform the lesser evils at Washington.

Second, statistics about a country's prosperity, urged either for or against protection, are, as usually presented, of no value. The tariff policy of modern countries has been a minor factor in their industrial life. Inventions and discoveries, especially the application of steam to industry, and the growth of intelligence, have been the chief forces which have made such astounding additions to the wealth of the world during the nineteenth century.

Third, bad as it may be in many respects, the American tariff is an historical growth, and during the century of our national existence it has taken deep root. It has become part of our life, and it cannot be suddenly eradicated with impunity. If it is true that American labor would be better off without it, it does not follow that it ought to be removed suddenly in the interests of American labor. If an industrial growth is abnormal, it is none the less true that adjustment to normal conditions is a painful process and should be conducted cautiously. Displacements of labor and capital cause suffering and loss. At the same time, it is impossible to tolerate permanently a bad condition of things, and while rashness is to be deprecated progress should be insisted on.

Our capital has become enormous. Skill has been developed in our country, and it is not clear that our industrial leaders are not quite capable of holding their own with the world in a free market. The fact that labor receives a large share of the product, if such is the case, does not render labor and the other factors of production less fruitful. Does the American farmer abandon the cultivation of land because out of a hundred bushels of wheat grown he must give the

American laborer, say, fifty, while his European rival gives only thirty bushels out of a hundred? He still has fifty bushels left.

This is only a small part of the subject of protectionism and free trade, a very small part, but it is trusted that it will prove suggestive, and that no one will terminate with this his tariff studies.

It may be said in conclusion that reform of the tariff is possible both from a protectionist and from a free trade stand-point. What is desired is simplicity in our tariff system, which is now complex. No article should be taxed unless there is some good reason for it. Other things being equal, the fewer articles taxed the better. Reductions in duties wherever practicable should be made. Specific duties, that is, duties which are calculated by weight, measurement, or count, as simple and less provocative of temptation, ought to be substituted in every possible case for *ad valorem* duties, that is, duties which are a percentage on value, a thing so hard to be determined.

List's *National System of Political Economy* presents protectionism ably. Taussig's *Tariff History of the United States* is the work of a fair-minded free-trader. Patten's *Premises of Political Economy* advocates protectionism from a new stand-point, and is worthy of consideration. Thompson's *Protection to Home Industry* is a popular presentation of protection, in four lectures. Ely's *Problems of To-Day* is a simple and easily grasped argument for tariff reform. Special attention in this work is given to the balance-of-trade theory.

PART IV.

DISTRIBUTION.

CHAPTER I.

INTRODUCTORY.

It has already been remarked that the production and the distribution of the annual income of society cannot be sharply separated, and the reader must have observed that more or less has been said about the four parts into which the products of industry are usually divided; namely, wages, interest, profits, and rent. Taxes may, perhaps, be regarded as a fifth part into which the annual income of society is divided, and we may treat taxes as the part which society, organized as State, receives for its participation in production. But, if this view is taken, we have a fifth part peculiar in so many respects that it is desirable to treat it neither under production nor distribution.

All of distribution might undoubtedly be considered under the general heading production, but on the other hand it is frequently asserted that distribution is "the true center of all economic inquiries," and it would be possible to treat the whole of production from the stand-point of distribution. The truth is that these old traditional divisions of our subject-matter indicate different points of view, and on this account it seems desirable to retain them. When we pass from production to distribution we do not enter a new field, but we look at an old field of investigation from a new point of view.

We have in this "Part" of political economy to discuss chiefly either actual or contemplated self-conscious social efforts to control the distribution of the income of industry among families and individuals, and, save in the first two chapters, only secondarily that distribution of products which flows as it were spontaneously from productive processes. It

is, however, necessary to add a few remarks to what has already been said about property, that fundamental institution in distribution, and about wages, interest, profits, and rent, before we pass on to subsequent chapters.

Property.—By private property we mean an exclusive right or control of a person over an economic good, and sometimes the economic good itself over which this exclusive right is exercised. It is of the nature of property that it carries with it the power of exclusion within its own sphere, but not that it is absolute. Such a thing as an absolute right of property never has existed and never will exist. The Roman law defined property as "*jus utendi vel abutendi re*," the right to use or consume a thing. Now, *abutendi* has by some been supposed to mean abuse, and it has been asserted that the Roman law gave a man the right to abuse his property, but it has been shown that *abutendi* in this place means "use up," or consume, and the Roman law conferred no such outrageous right on a proprietor. All codes will be searched in vain for an unlimited right of property. There are two elements in property, the social and the individual, and sometimes the one is more prominent, sometimes the other. Sometimes the one is allowed to encroach unjustly on the other. John Stuart Mill mentions as such an encroachment the assumed right of a landed proprietor to exclude the public from the contemplation of a great natural wonder. This was felt to be so anomalous in the case of the land surrounding Niagara Falls that New York State and Canada bought out the private owners and made of the land public parks. The general public has had from time immemorial the right to use as pleasure grounds many forests in Germany, and when in Prussia this right was somewhat restricted a few years ago it was felt by many persons to be an unjust encroachment of the individual element on the social. It is only within its own sphere that the right of property is exclusive. The old Teutonic idea of property, appropriate to England and America, makes the social element prominent, while the Roman law, with its negative characteristics, tends

to minimize the social element and exaggerate the individual.

Every change in the laws of property changes to some extent the mode of production of economic goods, but to still greater extent and more immediately does it alter their distribution. What is needed is flexibility in our laws of property so that the conception may be gradually altered in a conservative spirit in order to meet the demands of existing economic and social civilization. Inflexibility is destructive, and tends to revolution.

Rent.—Rent has been defined as the annual return of land in itself. When one person parts for valuable consideration with the use of land what he receives is called rent, but the value of the use of it is rent when he retains it and uses it himself. Now, what determines the amount of rent? Land of various degrees of fertility is cultivated, and the poorest land cultivated is said to be on the "margin of cultivation." This is land which pays no rent. What is received comes simply as a return on capital and labor. An abundance of land can be found which pays no rent. It "just pays" to cultivate it, and that is all. Now the greater part of land is either better situated or it is more fertile. It more than "just pays" to cultivate this land, and the difference between what this land yields and land on the margin of cultivation is the amount of rent. It is on this account that rent is said not to enter into prices. When we buy a bushel of potatoes we pay the same whether they are grown on poor or on fertile land, whether grown within half a mile of the market or five hundred miles away, provided the potatoes are equally good. But it is obvious that the cost of growing a bushel of potatoes varies widely. It is the cost under the least advantageous circumstances which determines price. Price must be high enough to cover this cost or the land will go out of cultivation, just as poor land has gone out of cultivation in England since our West was by railways rendered accessible. When the potatoes are grown under favorable circumstances the price more than covers cost, and a surplus is left

which is called rent. If rent paid were abolished, price would not be altered. Ask any tenant if he would lower the price of potatoes if his landlord would release him from paying rent.

It is not strictly accurate to say that rent does not enter into price. A part of price usually paid is rent, but price is not altered by rent-payments. Values of things exchanged are determined by their production under the least favorable circumstances under which they can be permanently produced. Those who produce under more favorable circumstances have a surplus. Pure economic rent is not return for capital, that is, for improvements, not at any rate until they have become inseparably and undistinguishably blended with the land. Return for improvements is, strictly speaking, interest and profits. It is sometimes said land will not sell for what the improvements cost. The effect of improvements cannot last indefinitely, and they must be paid for year by year, and entirely paid for within an often very limited period, or they do not prove remunerative, as frequently happens. In any section of our own East, where it is said that there is no economic rent, the reader will be able to find unimproved land for which people will gladly pay rent. At the same time it is hard to distinguish pure economic rent of agricultural land from profits, and perhaps impracticable to carry out any policy which would require this. It is an easy matter in cities to distinguish rent from profits, and it is done every day in cities like London, New York, Baltimore, and Boston. Land can readily be bought separately from improvements or improvements without the land in cities. Whatever surplus land yields above returns on labor and capital is rent, and as city lots are not cultivated, whatever is received per annum for them is pure rent. It is usually called ground-rent.

Interest.—Perhaps the broadest generalization which we can discover with respect to interest is this: The rate paid for capital lent to others tends to become that percentage of the capital which will equalize the capital seeking invest-

ment and the amount demanded. If more is offered than people will take at the existing rate of interest the rate of interest will fall, unless some other forces, like new opportunities for investment, intervene. The amount demanded will, of course, depend on opportunities for investment, and the fruitfulness of investments, as it fixes the maximum amount which can be paid, will have a large influence in determining the rate of interest.

Interest covers risk and must vary with risk. Interest is also governed in a large part of transactions in the United States, especially in rural districts and small towns and cities, by positive law. Commands of Mosaic legislation forbidding interest, and similar legislation in the Middle Ages, while never altogether successful, were powerful, and, though they finally broke down, long exercised an influence. A further treatment of all these and many other considerations must be omitted on account of the limitations of space.

Profits.—It may be said that whatever is left after paying interest, rent, and wages is profits. It is the return which is received for the organization and management of a business at one's risk. It is, strictly speaking, not "wages of superintendence," for that may be deducted, and often is deducted.

We have already something to guide us in determining rent and interest, and in the next chapter suggestions will be offered to help the student to determine what part of the product of industry will fall to labor in wages.

Profits and interest are often, in practical business, "lumped" together. They are not separated, but the manufacturer or merchant frequently speaks of his entire income, interest on his money, his own wages and profits, as his profits, although the more careful discriminate between the various elements of income. Profits and interest are calculated in percentages. We speak of profit of ten per cent. or twenty per cent., more or less, as the case may be. It means that the returns on what is invested bear that ratio to the capital invested. If capital is of the value of

one hundred dollars and profits are ten per cent., of course profits will be ten dollars. This gives no proportion between what labor receives and what capital receives, as has been absurdly supposed. It has even been said if capital receives ten per cent. labor receives ninety. It is strange that any one could believe any thing so ridiculous. This would only be true in case the return on the capital and labor in profits and wages each year always equaled the capital invested; whereas these returns are sometimes nothing, sometimes forty-five per cent. of the amount of capital, as happened in a large establishment with a capital of one million dollars in 1888, as the author happens to know, and sometimes the profits alone exceed the capital, as happened in the case of a railway construction company in regard to which the author has trustworthy information. The percentage of profits and of interest, either separately or together, tells us nothing about the distribution of products between labor and capital. If we know that interest and profits have fallen, this also tells us nothing about the distribution of products between labor and capital. We do not even know that capital and enterprise are receiving a smaller relative share than formerly. This can only be shown when it has been demonstrated that capital has not increased in so great a proportion as the rate of interest or profits has fallen. Let us for the present, therefore, "lump" profits and interest and call both profits, and call the entire return profits on capital, although, strictly speaking, part of it is the share of the *entrepreneur*, and is reward for "enterprise." If profits have fallen from ten to five per cent. and capital has quadrupled in amount, profits have increased in their total amount one hundred per cent.

Capital and Capitalization.—We must also distinguish between capital invested and capitalization. Capitalization means the amount at which a property is valued, and it may be ten times the cost of capital actually invested. When we speak of profits as being ten per cent. or five per cent. we mean profits on free or disposable capital, and this rate

depends on opportunities for production which are still open, not those which have already been seized. Let us suppose that the returns on investments still open to all are about ten per cent., but that the returns to a telephone company or an electric lighting company which has actually invested one hundred thousand dollars is one hundred thousand dollars; the undertaking will be capitalized at one million dollars, so as to conceal the actual rate of profits; and as profits fall on new investments open to all, capitalization of old and lucrative enterprises rises in proportion, although no new capital is invested. One familiar form which this takes is "stock-watering," but it is also seen in higher prices. If a house yields one thousand dollars a year, and ten per cent. is a fair return for house property, it will be valued at ten thousand dollars; but if profits fall, and five per cent. is considered a good return, it will be valued at twenty thousand. This increase of capitalization is sometimes an unconscious process, and a man will at times feel poorer when he is receiving five per cent. on his capitalization of an investment than when he was receiving ten per cent., although his capitalization has quadrupled without any additional investment of capital.

Profits of Monopolies.—It is said profits tend to equality. This may be true of pure interest in a large, well-supplied market. There are in such markets constant fluctuations and a constant tendency toward a level—a level always changing, at least slightly. When the flow of capital is perfectly free the same tendency may be observed with respect to profits in the strict sense, although here many obstacles which we may call *economic friction* render the movement toward equality slower and less certain. The laws of competition bring about this tendency toward equality. If one branch of industry is receiving exceptionally high profits, as soon as it becomes known other *entrepreneurs* will direct their capital into this channel, and this will tend to make various industries equally attractive—to reduce them to a level. Of course, within each kind of industry profits will

vary according to situation, and more particularly according to the capacity of the *entrepreneur*. All this supposes, however, a free flow of capital, and it is a peculiarity of modern industrial life that in an ever-increasing proportion of the industrial field—that represented by natural monopolies and artificial monopolies—the flow of capital is not free, although outside of these favored undertakings competition is continually increasing in severity. While the ordinary merchant or manufacturer may rejoice to receive five or ten per cent., much capital is invested which yields, not on capitalization but on capital, twenty, thirty, forty, and even one hundred per cent. This brings us to one aspect of the so-called great "social question," and it shows how far those are from having grasped its full significance who reduce it merely to a labor problem. It is quite as much the merchant's, the manufacturer's, the lawyer's, the teacher's problem. It is what its name, "social," indicates, the problem not of any class, but of society.

On rent, read Mill's *Political Economy* (unabridged edition) Book II, chap. xvi. Those who have access to the New York *Independent* may find some suggestions in five articles on *Land, Labor, and Taxation*, by the author, which appeared December 1, 8, 15, 22, 29, 1887.

CHAPTER II.

WAGES AND THE WAGES-SYSTEM.

The "Standard of Life."—It has been the opinion of many of the ablest political economists for over a century that what is technically called *standard of life*, or *standard of comfort*, determines the wages of labor. This means that laborers have an habitual standard of life, a certain style of life, and that what they receive as wages enables them on the average just to keep up this standard, but to do no more. They are able to occupy such a sort of dwelling, to wear such clothes, to eat such food, and generally to do such things as this standard requires, but no more. This has also been called the *iron law of wages*. There is so overwhelming an array of facts, gathered from widely separated countries and from periods so distant from one another, which confirm this conclusion, that it is difficult to resist it. The iron law of wages is not a law like a law in physics, but it expresses in a rough sort of way a powerful tendency. Among the striking evidences of the truth of the theory of the standard of life as the norm for wages, the fact is especially noteworthy that as a rule it seems to fail to benefit the laboring populations on the whole and for any length of time for the wife and children to earn money, even apart from all other considerations than money-getting. The world over, when it becomes customary for the wife, or wife and children, to work in factories, it very soon becomes necessary for them to do so to support the family. The wages of the head of the family and the earnings of the entire family as before just maintain the standard of comfort among that class of the population. Professor E. W. Bemis has called attention to the fact that in the textile industries of Rhode Island and

eastern Connecticut, where the women and children work, the earnings of the entire family are no larger than in other industries, like those in metal, in western Connecticut, where only the man works. Similarly an increase in the length of the working day confers no benefit, while it has yet to be shown that a reduction of the length of the working day ever, in any part of the world, reduced wages permanently. On the contrary, it is more likely to raise the standard of life and to raise wages ultimately. Many important conclusions flow from this principle, which cannot be elaborated in this place. It was probably on account of a conviction of the essential validity of this law that Hon. A. S. Hewitt, when Mayor of New York city, refused his sanction to an apparently philanthropic scheme to establish lunch stands in different parts of New York where something to eat could be obtained for a cent. Probably most political economists would agree with Mr. Hewitt in thinking that it would in the end do more harm than good. At any rate, simply to reduce the cost of living will in itself never render men really prosperous.

This tendency, when called the iron law of wages, has been used as a means of agitation to provoke discontent, but it applies in a rough kind of way to all classes, and to judges and college professors quite as relentlessly as to workingmen, perhaps even more so. If the standard is what it should be, what more can be asked than that we should be able to maintain it? It should include provision for all real needs and provision for accidents; future emergencies, disability on account of old age, and the like should be included. A deposit in the savings bank and insurance policies ought to be a part of the habitual standard of life. The standard is unfortunately not what it should be, but it can be raised. It has been raised in the past, and the true kind of social reform cannot be brought about unless it is raised still further, and the more nearly it becomes in all respects what it ought to be the nearer we are to our goal—a goal which, like all ethical goals, we can forever approach but never reach. Perfection is infinite.

The standard of life has at times fallen, and it at times requires a tremendous effort to maintain it, and a still mightier effort to raise it. It requires now a struggle for our laboring classes to maintain it against the onslaught of cheap and degraded labor pouring in upon us from Europe, and until recently from Asia also. It is on this account desirable to restrict immigration to some extent, for a lower standard means a lower civilization. The struggle to maintain a standard of life, when not too severe, has beneficial results which ought not to be overlooked. When the struggle is successful it results in increased efficiency, and is a spur which human nature, when too sluggish, needs. Sometimes the struggle has this result in the United States: a large proportion of native Americans abandon pursuits invaded by those with a lower standard of life, and attempt elsewhere to keep their standard. A part of these displaced succeed, and attain a much higher standard than the old. Others cannot make the ascent and become a dissatisfied element in society.

The Law of Distribution.—All this is in perfect harmony with what has been previously said. In the struggle for the division of products the most slowly increasing factor is at an advantage. When the product is once given, the more one takes the less is left for others. If you take three quarters of the loaf, only one quarter is left for me, and no fine phrases can alter this fact. The struggle made by interest and rent seems to be powerful—a quiet, regular sort of struggle, obeying strong tendencies—while the active, noisy, and at times violent struggle takes place when it comes to dividing what is left after paying rent and interest between labor and capital. Now the standard of comfort means this: that population will not increase beyond the point where the struggle can be maintained. If the struggle begins to be too severe few people will marry, or those who do marry will be older when they marry, or on account of increased want the mortality of children, always terrific among the poor, will increase; and thus in one way

or another the factor labor will increase more slowly. Otherwise one of two things must happen: either new openings for labor must be found or the standard must fall.

Differences of Wages.—We have different standards of life in different occupations, consequently differences of remuneration, whether paid as wages or salaries. What determines differences of wages of various occupations? All sorts of fanciful replies have been given. The differences are largely historical. We must go back to a man's grandfather or great-grandfather. Occupations where remuneration is high are so difficult to enter that few are able to surmount the difficulties. Peculiar and rare qualities are required; opportunities which come from favorable environment; an expensive training, which few parents are able and at the same time willing to give. What one is depends chiefly on one's parents, and, as has been often said, one has no voice in the selection of one's parents. We who have been blessed in this respect ought to feel that we owe a special duty to humanity.

Adam Smith enumerated the following five causes for the differences of wages in different employments: First, the agreeableness or disagreeableness of the employments themselves. Secondly, the costliness or cheapness or the difficulty and expense of learning them. Thirdly, the constancy or inconstancy of employment in them. Fourthly, the small or great trust which must be reposed in those who exercise them; and fifthly, the probability or improbability of success in them. All this presupposes that grown men, perfectly free to select their occupations — free not merely so far as the law is concerned, but free so far as their command of resources is concerned — look over the entire industrial field and choose their employment. A recent English writer, pointing out that occupations are selected by parents very generally, adds: "When a person is one of the large number who have been in childhood badly nourished, badly housed, badly clothed, badly educated, and not at all trained to any particular occupation, let no

one prate to him of his freedom to choose what occupation he thinks proper. His legal freedom to choose many occupations is about as much use to him as his legal freedom to fly with wings in the air." Nevertheless, with proper qualifications, what Adam Smith says explains many differences in wages. It is left as an exercise to readers and students of this book to discover by observation, careful and long-continued, the real amount of truth in Adam Smith's causes for differences of wages in different employments.

Piece-Work.—Wages are paid by time or by the piece. A day, week, or month is paid for at an agreed price, or a price is paid for each piece of work done, as for each bushel of corn husked. Payment by the piece would seem to be fairer for all parties, but abuses have in manufactures so generally been connected with it that it is opposed by many intelligent artisans, and careful political economists will be slow to give piece-work unqualified approval. Physicians testify that by producing feverish over-exertion it has in certain quarters shortened average life materially, and there is a proverb in Saxony, in Germany, to the effect that piece-work is work that murders. Piece-work has frequently been used to break down regulations and laws limiting the time of work, and more frequently still to bring about a reduction of wages. The workers strain every muscle and nerve to earn high wages, and after a high rate of speed has been secured the price per piece is reduced, sometimes time and time again. Peculiarly cruel and aggravating cases of this kind have come under the writer's observation. When not connected with abuses payment by piece has many advantages, and is at times preferable for all parties.

The Sliding Scale.—A sliding scale of wages has been introduced by a powerful trades-union, the "Amalgamated Association of Iron and Steel Workers," chiefly in Pennsylvania, and it appears to have given general satisfaction and to have kept the industrial peace better than the ordinary wages system. Wages vary with selling price of the product, and thus labor shares to some extent in the prosperity

of capital. The sliding scale is known elsewhere in this country and in England, and it has met with a good deal of favor from economic writers.

Arbitration and Conciliation have accomplished much for the preservation of industrial peace wherever thoroughly and honestly tried. Sometimes voluntary boards are appointed by employers and employed to adjust differences, and sometimes they are appointed by public authorities. New York State and Massachusetts have permanent boards of arbitration, and both have accomplished good. The New York board, however, appears to have inadequate powers, but the Massachusetts board, which must be summoned by local authorities and has power to get at all the facts, has accomplished in a short space of time wonderful things. It is more effective than police or militia, and less expensive for preserving peace in the excitement connected naturally with wages controversies.

Factory Inspection.—Labor legislation, honestly conceived, and properly enforced by factory inspectors, has been productive of incalculable good. England is the model country in this respect, and Massachusetts in our own Union is the banner State in labor legislation. Labor legislation should aim to keep children away from work and in schools, to restrict to its lowest terms the employment of women, to limit the working-day for married women and to give them a Saturday half-holiday, to shorten the length of the working-day for young persons under eighteen to the length prescribed by physiology and hygiene and to give them also a Saturday half-holiday, to compel employers to fence in dangerous machinery and otherwise guard against accident, and to render them pecuniarily responsible for accidents to employés by employers' liability acts. We have here a goal, and no country ever yet suffered in international competition by approximations to it. England, which has come nearest to it, is the most dreaded country on the globe in international competition, and Massachusetts, which has gone farther than any one of our States in this direction, is one of the richest

in the Union. Economists say that England's action has given her a stronger and better laboring population, and has established her industrial supremacy upon a firmer foundation than ever.

Read Clark and Wood on wages, in the monograph of American Economic Association entitled *Contributions to the Wages Question;* also Patten on *Stability of Prices*, the same publishers. Advanced students who read German will find the treatment of wages by Professor von Ihering, the distinguished jurist of Göttingen, unusually suggestive. It is found in chapter ix of the second edition of volume i of his *Zweck im Recht.* On arbitration and conciliation read Joseph D. Weeks's pamphlet, *Labor Differences and Their Settlement*, New York, 1886, Society for Political Education ; also the excellent work on *Industrial Peace*, L. L. F. R. Price, with preface by Professor Marshall. Also read article by the author in *North American Review* for 1886. The best account of English factory legislation is a fascinating work, *The Life and Work of the Earl of Shaftesbury*, by Hodder.

CHAPTER III.

LABOR ORGANIZATIONS.

The old mediæval guilds were organizations of all the factors of production. Employers and employed united in one body regulated production, but the control rested chiefly with the masters. Modern labor organizations embrace, as a rule, only one of the factors, the employed, and their purpose is to promote the interests of this one factor whenever those interests clash with those of the employers.

Trades-Unions and Knights of Labor.—Labor organizations may be divided into two classes, and as a matter of fact they are so divided to-day in the United States. These classes are the trades-unions and the Knights of Labor. The trades-unions are primarily organizations of skilled artisans. According to the old trades-union idea each craft should be organized by itself. The Knights of Labor are, according to their original idea, organizations of employés both skilled and unskilled, regardless of trade. They aimed to break down the barriers to common action found in differences of occupation. The Knights of Labor have also taken a broader outlook upon society, and have sought to accomplish greater things than the trades-unions. The trades-unions presuppose a difference of interest between employers and employed. They are, as it were, a fighting body. This divergence of interests exists, and fighting bodies often preserve peace. "If you would have peace, prepare for war," is an old maxim, and struggles between labor and capital have been most violent in Belgium, where no efficient organizations have existed. But the Knights of Labor have looked beyond a period of conflict to a union of productive factors which should be peaceful. They hope in some way to see

labor and capital united in the same hands. They desire to make capitalists of laborers, and to organize production on a co-operative basis. It is doubtless on account of this ultimate aim that they admit employers, of whom many are members, and also the professional classes, a considerable number of teachers, journalists, and preachers being also members. The Knights of Labor are in so far a return to the principle of the old guild organization.

Knights of Labor and trades-unions have both modified their original programmes. The trades-unions have united in larger federal organizations, first in the central labor unions of our cities, and later in the national body, the American Federation of Labor. This national body has also made provision for the organization of unskilled working-men, and for local unions of working-men of different trades where those engaged in each trade are too few for separate organization. The Knights of Labor have, on the other hand, organized separately a considerable number of trades in what are often called "district assemblies," and have thus recognized more largely than they were at first inclined to do the principle of federation with separate crafts as a basis.

A bitter contest between the Knights of Labor and trades-unions has been waged, but there is now some evidence of an effective desire for harmonious co-operation in the prosecution of common aims.

Growth of Labor Organizations.—It has been recently estimated that a million working-men in the United States are members of labor organizations.* The number, of course, varies. A period of prosperity for the organizations is generally followed by one of reaction, and the present seems to be a continuation of the period of reaction which began early in 1886, perhaps in 1885. Reaction always terminates in a new advance, and thus far in the United States each new advance has carried the labor organizations farther forward than ever before.

* See Dr. E. W. Bemis's valuable article on working-men in the United States in the American edition of the *Encyclopædia Britannica*.

Farmers' Organizations.—Two powerful organizations of farmers, the Patrons of Husbandry and the National Farmers' Alliance, are more like the old guilds in this, that they are organizations of independent producers designed to protect their interests against attacks from other social classes. Recent years have, however, witnessed an approach of labor organizations and farmers' organizations to each other for the attainment especially of common political aims.

Labor Organizations a Natural Growth.—Labor organizations are not forced products. They have grown up almost spontaneously. They have arisen naturally out of modern industrial conditions. Wherever capital is a separate factor in production, and is organized on a large scale, labor inevitably organizes itself sooner or later in order that it may stand on an equal footing and make labor contracts advantageously for itself. Let us suppose one capitalist employs a thousand men. If these men are not organized each man individually treats with all the capital in the establishment. All the capital is represented by one man, but one laborer represents but a thousandth part of the labor force, and he is not in a position of equality. The laborers therefore unite their labor, and speaking through one representative place all the labor against all the capital. This is something which so naturally suggests itself that we find labor organizations in all modern lands.

Opposition to Labor Organizations.—Labor organizations met at first with violent opposition, and it cannot be said that in their earlier stages or even in their later growth this opposition is by any means groundless. However, whatever bad traits naturally characterize labor organizations are aggravated so long as they are obliged to struggle for existence. Whenever the fact of their right to exist is frankly acknowledged, and employers, ceasing to persecute them or their officials, recognize the man who treats in a representative capacity for the sale of the commodity labor as courteously as they would an agent for the sale of corn or wheat; finally, whenever courts cease to harass them

with legal chicanery, as courts long did in England, they tend to become strong and conservative. The fact is undoubted that most serious abuses and outrages have attended the progress of labor organizations, but they have simply exhibited weaknesses of sinful human nature and weaknesses which have been observed in more frightful manifestations in those other organizations, nevertheless excellent, which we call Church and State. The true course is to recognize the beneficence of the principle of organization and to contend only against abuses. It can scarcely be too much to say that this is the opinion of nearly all competent observers in England, Germany, and the United States. The following quotation about labor organizations from *Work and Wages*, by Professor Thorold Rogers, of Oxford, not only expresses the view of many scholars and business men, but illustrates a common change of attitude on the part of many fair-minded persons who have seen previous prejudices against labor organizations displaced by a careful examination of their claims: "These institutions were repressed with passionate violence and malignant watchfulness so long as it was possible to do so. When it was necessary to relax the severities of the older laws, they were still persecuted by legal chicanery whenever oppression could on any pretext be justified. As they were slowly emancipated, they have constantly been the object of alarmist calumnies and sinister predictions. I do not speak of the language of newspapers and reviewers, which simply re-echoed the passions of the hour; far graver were the allegations of Senior and Thornton. . . . I confess to at one time having viewed them suspiciously; but a long study of the history of labor has convinced me that they are not only the best friends of the workman but the best agency for the employer and the public; and that to the extension of these associations political economists and statesmen must look for the solution of some among the most pressing and difficult problems of our times."

It may be proper to state that while the author does not hope for so much as Professor Rogers seems to from labor

organizations alone his experience has in the main been the same.

Space is too limited to permit an explanation of the immeasurable misapprehensions of the general public in regard to labor organizations. One of them is that innocent and peace-loving working-men, perfectly contented, are misled by agitators who have been placed at the head of labor organizations. Careful observation will show that the influence of labor leaders is conservative on the whole, and that strikes originate among the masses and are generally resisted by the leaders so long as it is possible. It will also show that leaders are readier than a large proportion of the "rank and file" in the organizations to terminate strikes.

Success and Failure of Strikes. — Strikes produce harm, and every effort should be made to avoid them. They are, however, successful in more cases than is ordinarily supposed, and when occasionally a decided victory is scored the gain is immense. An agitation of a few weeks and a strike of a few days, together with an act of legislature, established a reduction of the hours of labor from seventeen to twelve for the hundreds of street-car employés in Baltimore. This is probably an advantage permanently secured. Other illustrations might be given, and nothing is gained by shutting our eyes to such facts.

Violence is disastrous, and the welfare of the masses can only be secured by peaceful measures. While condemning in deserved terms violence, which too often accompanies strikes and which reacts against working-men, it is only fair to recognize the fact that this violence is largely due to criminal classes in cities which improve such opportunities for disturbance, and not wholly to the working-men. It is manifest, however, that, even so, it is only another argument against strikes wherever they can be avoided, and for the settlement of differences between labor and capital by peaceful arbitration.

Temperance.—Nearly all labor organizations are temperance societies, and many of their officers are total abstainers.

They have greatly diminished intemperance among those who belong to them.

Educational Value.—Their educational value is also noteworthy. The debates and discussions which they foster stimulate the intellect and do much to counteract the deadening effects of a widely extended division of labor.

Labor organizations bring men and frequently also women together and furnish opportunities for social culture. Temptations to coarse indulgence are thereby lessened, and an important side of human nature receives better opportunity for development.

It may be hoped that labor organizations are preparing the way for a better civilization. Certainly one of the most hopeful features of the situation is the willingness of organized working-men to listen to strong and manly words from those who understand their real purposes, who go among them and, with sympathy for their just aspirations, endeavor to help them to distinguish between the foolish and the wise, the wrong and the right, to show them how to pursue the good, and to inspire them with faith in that righteousness which alone can exalt the masses in a nation; that is, the nation as a whole.

Read chapter viii, on "Wages as Affected by Combinations," in Clark's *Philosophy of Wealth.* It is an admirable treatment of fundamental principles. Ely's *Labor Movement in America* is the only book which attempts to treat scientifically the subject with which it deals. See especially chapters iii–vi. A work edited by George E. McNeill, called *The Labor Movement, the Problem of To-day*, is written mostly by those who have actively participated in the work of labor organizations, and is the best presentation by working-men of their view of labor organizations. The student should not fail to study labor organizations at first-hand, as naturalists study animals, and not be satisfied with garbled newspaper accounts for information. *The Journal of United*

Labor, the organ of the Knights of Labor, and *The Carpenter*, the organ of the Brotherhood of Carpenters, both published in Philadelphia, the *Labor Leader* of Boston, the *Furniture Worker's Journal*, and the *Granite Cutter's Journal* of New York, and any one of many other labor papers will be of assistance.

CHAPTER IV.

PROFIT SHARING AND CO-OPERATION.

Profit-Sharing in the United States.—Labor organizations strive to secure higher wages for working-men than they would otherwise obtain, and thus to increase their share of the products of industry. Profit-sharing goes a step further than labor organizations. Those who advocate profit-sharing wish laborers to secure a portion of profits in addition to ordinary wages. It is held that this arrangement promotes economical use of material and machinery by employés and generally increases their zeal and efficiency. The result is a larger total product and a larger revenue for the wage-receivers. Profit-sharing has been extensively tried in the United States, and it has been successfully introduced by some of the largest productive establishments in the country. Recent testimony of American employers who have tried it is almost unanimously in its favor, although one prominent manufacturer abandoned it, and one or two have not found that it quite realized their expectations. Some influential employers appear to be enthusiastic in their praise of its practical working, and a member of a firm which has distributed over one hundred thousand dollars of profits to its employés writes to the author that he and his partners consider it the best investment that they ever made. He thinks that they have the most loyal set of working-men in the world. Instances recorded in three months showed that at least ten thousand working-men had in that period been admitted to a share in profits in the United States.

Profit-sharing may be extended to capital-sharing—partial ownership of capital by working-men and participation in management. The large manufacturing establishment of

Godin, in Guise, France, serves as the best example which occurs to the author. M. Godin gradually educated a large body of working-people to that point where they could take a part in the management of his large business, and at the same time encouraged them to acquire a part of the capital. If recent reports are trustworthy, the workingmen have finally acquired and now manage the entire business.

If we call industry, as ordinarily organized in our great mercantile and manufacturing establishments, despotism, we may call an establishment where laborers participate in capital ownership and management, under the chief control of some one who is recognized as an industrial superior, a constitutional monarchy. These terms, although indicative of mere analogies, are, after all, instructive. The despotic principle, the one-man power, both in politics and in industry, is an excellent thing in its own time and place, and in industry it has necessarily continued longer than in the political sphere. It is a phase of development, but it ought not to be regarded as final. A large part of the industrial troubles of modern society undoubtedly find their origin in the fact that development of the economic department of social life has proceeded more slowly than the development of other departments. Elsewhere the despotic principle has been softened or displaced, but continuing in the economic sphere it is a discordant element; yet it is difficult for most of us to see how for a long time to come we can wholly dispense with the one-man principle in industry. It should, however, be softened as far as practicable, and men should be gradually trained to understand industrial republicanism or democracy. M. Godin has set a noble example.

Industrial democracy means self-rule, self-control, the self-direction of the masses in their efforts to gain a livelihood. Industrial democracy is industrial self-government, and this is found in pure co-operation.

Co-operation is of two kinds: coercive, which means governmental action, and voluntary. We have here to do with voluntary co-operation, and this is what is usually meant

when co-operation is spoken of. Working-men combine their own capital, purchase their own plant, manage their own affairs in their own way, at their own risk, sharing profit or loss as the case may be. This is called *productive co-operation.* But we have also what is called *distributive co-operation.* Distributive co-operation means co-operation in distribution, not in the sense in which the word is used ordinarily in political economy, but in the sense in which we might speak of a merchant's activity in distribution. He distributes wares. Distributive co-operation refers to retail and wholesale trade, and is only an imperfect form of co-operation. Purchasers of wares, groceries, dry goods, etc., combine together to purchase what they need, and thus save profits. They form a stock company, subscribe for shares, employ a manager and clerks who often do not even share in profits, and start a business. Profits are sometimes divided only on shares, but the approved way is to pay a moderate interest on capital and to divide profits between stockholders and customers in proportion to purchases, the division being made at the end of stated intervals. Some establishments in Great Britain, and doubtless elsewhere, carry out the full programme, and give employés a share of profits. Profits are thus said to be divided among capital, custom, and labor.

Distributive co-operation has in England and Scotland succeeded better than productive co-operation, which has, however, met with some success. France appears to have succeeded better than England in productive co-operation. Some instances of success in the United States are recorded, and many undertakings have been partially successful; by which I mean that they have succeeded as business undertakings, but have abandoned wholly or in part the co-operative principle. This is the case with a large stove foundry started as a co-operative foundry, and in which some working-men or their heirs still own stock. One of the strikers among the working-men in this establishment, in a difficulty which arose not long since, owned seven thousand dollars' worth of stock. The managers seemed to take it much to heart that

he should strike, but it is hard not to feel a certain admiration for him, as he placed the union of his fellow-employés above his interests as a capitalist. A good example of pure co-operation is afforded by the co-operative coopers of Minneapolis, who have nearly absorbed the business of making flour barrels in that milling center. The superiority of co-operation as a business principle has in this case been demonstrated. Pure co-operation, when well-established, prevents strikes by completely identifying the interests of labor and capital. It stimulates energy and encourages thrift. The self-interest which usually animates the employer alone animates all co-operators. No slighting of work can be tolerated, and, eye-service vanishing, much labor of supervision is done away with. On the other hand, divided councils often render the movements of a business clumsy, and action cannot be so quick and decisive as when one man acts on his own responsibility. Failures of co-operation have generally been due to moral defects on the part of working-men. It has been difficult for them to act harmoniously together, and prosperity has often produced disintegration. Wherever co-operation has succeeded, however, it has produced excellent effects on character. It is a test, but when the test is stood it reacts beneficially on the co-operators. It makes men diligent, frugal, intelligent, considerate of the rights of others, as well as their own. Co-operation and temperance go hand in hand, as has been universally observed by students of co-operation.

Dr. Albert Shaw, associate editor of the *Minneapolis Tribune*, gives this testimony in regard to the co-operative coopers of his city: "The coopers are emphatic in saying that the moral effect of their co-operative movement constitutes its highest success. It has unquestionably wrought a transformation in the habits of these craftsmen. They are no longer a drunken, disreputable guild, figuring in the police courts and deserving the disfavor of the community. They have become a responsible and respectable class of citizens."

It was once thought that corporations could not succeed, but the inherent advantages of corporate industry after a long struggle have made themselves manifest, and corporations are crushing out the individual. It is believed by some that the inherent advantages of co-operation will sooner or later make themselves felt, and that after a period of adversity, of struggle, and of slowly increasing success co-operation will finally gain industrial supremacy; thus uniting harmoniously labor and capital and ushering in an era of industrial democracy.

On profit-sharing read the work bearing that title by Rev. N. P. Gilman. On co-operation read *Co-operation in the United States*, a volume published by the Johns Hopkins University. A brief and not so recent account of co-operation in the United States will be found in chapter vii of the author's *Labor Movement in America.* Those who read German will find most suggestive the argument for the ultimate triumph of co-operation in Theodor Hertzka's *Gesetze der Sozialen Entwickelung.*

CHAPTER V.

SOCIALISM.

Those who desire industrial democracy—not prematurely but in its own time—are many, and they include most of the best economists. There are, however, different ways by which it is proposed to attain the desired goal. One of these ways is voluntary co-operation for all competitive pursuits, and governmental activity for monopolistic undertakings. Another one of these ways is called socialism. Socialism means coercive co-operation not merely for undertakings of a monopolistic nature, but for all productive enterprises. Socialists seek the establishment of industrial democracy through the instrumentality of the State, which they hold to be the only way whereby it can be attained. Socialism contemplates an expansion of the business functions of government until all business is absorbed. All business is then to be regulated by the people in their organic capacity, each man and each woman having the same rights which any other man or any other woman has. Our political organization is to become an economic industrial organization, controlled by universal suffrage. Socialism will make civil service employés of all citizens, and will remunerate them in such manner as shall in view of all the circumstances appear to the public authorities to be just. Private property in profit-producing capital and rent-producing land is to be abolished, and private property in income is to be retained, but with this restriction: that it shall not be employed in productive enterprises. What is desired, then, is not, as is supposed by the uninformed, a division of property, but a concentration of property. The socialists do not complain because productive property is too much concentrated, but because it is not

sufficiently concentrated. Socialists consequently rejoice in the formation of trusts and combinations, holding that they are a development in the right direction.

There are four elements in socialism; namely, first, the common ownership of the means of production; second, the common management of these means of production; third, the distribution of annual products of industry by common authority; fourth, private property in income. Socialists make no war on capital, strictly speaking. No one but a fool could do such a thing. What socialists object to is not capital but the private capitalist. They desire to nationalize capital and to abolish capitalists as a distinct class by making every body, as a member of the community, a capitalist; that is, a partial owner of all the capital in the country.

Socialists say that labor creates all wealth. No rational socialist means thereby to deny that land and capital are factors of production, but as they are passive factors they hold that their owners ought not to receive a share of the product unless they personally are useful members of the community. Labor is the active factor, and all production is carried on for the sake of man. Land and labor are simply the tools of man. Socialists admit that the owners of these tools must receive a return for them when industry is organized as it is now; hence they desire that these tools should become common property. They wish to make of universal application the command of the apostle Paul: "If a man will not work, neither let him eat."

Distributive Justice.—The central aim of socialism, the pivotal point, is distributive justice. It proposes to distribute products justly. The ideas of socialists are, however, not harmonious as to what constitutes justice. Some say equality is justice; others, distribution in proportion to real needs, so that each may have the economic means for his completest development. Still others say justice means distribution in proportion to merit or service rendered—but the service of the individual, not of his ancestors. Bequest and inheritance, except of articles of enjoyment, like pict-

ures, old family plate, books, household furniture, possibly also the use of a house as a home, must be abolished. Socialism allows no inheritance which renders labor needless.

It ought not to be hard to picture socialism to one's self. Government owns the post-office ; most governments own the telegraph. Nearly all own the wagon roads. Some own the canals and railways. Many governments own factories. Probably every national government does at least a little manufacturing. Most governments cultivate forests, and some cultivate more or less land. We have only to imagine an extension of what already exists until government cultivates all land, manufactures all goods, conducts all exchanges, and carries on, in short, every productive enterprise, and we have socialism pure and simple. It may be conceived as compatible with constitutional monarchy or with republicanism. Socialism is compatible with a centralized government, but also and more naturally with a decentralized government. Some functions would fall to the minor civil divisions, others to States, others to federations of States—even to international federations.

What is Socialistic?—Surely not every public activity. Properly speaking, that only can be considered socialistic which tends to an absorption of all production by the government. Does a measure tend to the suppression of individual production and production by voluntary associations of individuals and to the absorption of production by government? Then it is socialistic; otherwise not. This is the only way to distinguish between socialistic and non-socialistic, or even anti-socialistic, measures. This furnishes us with a rational basis for judgment. If we are socialistic we will favor socialistic measures, but if we are opposed to socialism we will at least be inclined to reject socialistic measures. Are compulsory education and free schools socialistic? No ; they are decidedly anti-socialistic. They develop capacity for self-help, and enable those who grow up under their influence to make the best of existing institutions. They are a conservative force. Are gas-works, electric lighting works, water-

works, and the like, owned and operated by municipalities socialistic? No; for they are in line with a modern tendency to separate sharply between the industrial functions of private persons and the industrial functions of the politically organized community. There is a sound principle at the foundation of this tendency. The conviction is gradually being forced upon us by science and actual experience that natural monopolies are best owned and operated by government, while competitive businesses flourish only in the atmosphere of private enterprise and free competition. If we separate thus on rational principles the private from the public industrial sphere, instead of letting things drift in haphazard fashion into chaos we lay the strongest possible foundations for the existing order.

The Strength of Socialism.—Socialism makes perhaps its strongest claims in its plea, first, for a scientific organization of the productive forces of society, and second, for a just distribution of annual social income. It is said that the present production of economic goods is small in proportion to population, but socialism replies: "Naturally enough. Competition is wasteful. Two railways are built when one would suffice. Two trains run parallel between two cities where one would serve the public equally well. Three times as many milk-wagons, horses, and drivers are required to serve the people with milk as would suffice if the milk business were organized like the mail distribution business in cities. Look at the stores, wholesale and retail, and see the waste of human force. Without competition the whole dry goods and grocery business could be carried on with a third of the present economic expenditure of force. Reflect on all the idle classes in modern society. Socialism would set every body to work, and, making each one dependent on his own exertions for success, would stimulate all energies." The argument is continued after that fashion, and it is telling. It does not prove the point unless we grant two things: first, that the present waste and idleness cannot be suppressed or greatly diminished without a departure from the funda-

mental principles of our present industrial order; second, that socialism is practicable. Justice is a strong plea in the programme of socialism, and it cannot be for one moment claimed that each one's income is at present in proportion to his services to humanity. Income in proportion to industrial merit is attractive to an ethical sentiment. But cannot we approximate more nearly to that than at present by social reform? And by social reform is meant the improvement of existing institutions, but not their abandonment. No doubt the idle man is morally a thief. He receives, but gives nothing in return. Any man who by past services of his own has not earned the right of repose is a shameless cumberer of the earth, unless, indeed, he is physically or mentally incapacitated for useful employment. Would the world suffer if you should die? That is the test. If you merely clip coupons, then no one would miss you. Others would willingly relieve you. But your service need not be manual toil.

Dr. James Fraser, the late Bishop of Manchester, England, recognized the obligations of personal service, but he did not in consequence favor socialism. He argued in this wise: "Most of us are by our necessities obliged to render services to our fellows. Some of us, however, have inherited or received money in some way without a return on our part. We are placed by God on our honor. It is now a matter not of physical compulsion but of honor with us to serve our fellows."* What is here said would apply of course not merely to those who receive wealth by inheritance, but to those who become wealthy by the discovery of valuable treasures, like oil, natural gas, gold, minerals, etc., on or under soil which they own, or by the mere growth of cities, which adds immensely to the value of land. Legally the wealth is mine, but morally it is simply a new opportunity for me to help forward the progress of humanity; for ethically I myself am not my own.

* These are not the bishop's exact words. It has been many years since I have read them, but I have reproduced the idea.

Social Reform.—We may likewise inquire whether without a departure from the institution of private property, the laws of bequest and inheritance may not be so changed as to bring about a fairer distribution of products; whether, also, by public ownership and management of natural monopolies much of the waste of present private competition may not be avoided. These and a multitude of other questions suggest themselves. The author holds that social reform is likely to accomplish more valuable results than socialism. What is, in his opinion, needed is a free and peaceful evolution of industrial institutions, but not a radical departure from fundamental institutions.

The Weakness of Socialism.—It does not appear clear to the author how socialism could be made to work in actual life. The danger to freedom seems a very real one. It is frankly admitted that up to a certain point there is a tendency on the part of government to improve as its functions increase. But would this hold with the indefinite extension of the sphere of government? Let us admit that as our livelihood would depend on the efficiency of government all the force and energy which now go into private service would be turned into public channels. But what would happen if, in spite of all precautions, some unscrupulous combination should secure the control of government? There would be no standing-ground for effective opposition outside of government, for dismissal from the service of government would mean a cessation of opportunity to gain a livelihood. If all production is to be carried on by public authority there could be no private press for criticism; and it is to be feared that unwelcome views, which after all may be the true ones, would fare much worse than at present.

The domination of a single industrial principle is also dangerous to civilization. It has been held that the domination of a single social principle has led to the downfall of older civilizations, and a distinguished American * has expressed the

* Hon. A. D. White, ex-president of Cornell University, in his excellent address entitled *The Message of the Nineteenth Century to the Twentieth.*

fear that the private business principle, with what naturally goes with it, called by this scholar "mercantilism," threatens American civilization. Now what is wanted is a co-ordination of the two principles, the principle of public business and that of private business. It is desirable that some should serve the public in an official capacity. Some are adapted for that. It is desirable that an ample field should be left for those who prefer private initiative and activity. It seems to the author that thus only will our civilization be rendered rich and full.

Socialists.—Socialism has rendered good service by calling attention to social problems, by forcing us to reflect on the condition of the less fortunate classes, by quickening our consciences; also by helping us to form the habit, acquired by few as yet, of looking at all questions from the stand-point of the public welfare and not merely of individual gain; finally, by calling our attention to the nature of the industrial functions of government, and helping us to separate rationally the private industrial sphere from the public industrial sphere. Socialism as a theory of society cannot, of course, be regarded as in any sense morally blameworthy. It has been advocated by good men and by bad men also. To-day it numbers earnest Christians and sincere ministers of the Gospel among its adherents. As there are good republicans and bad republicans, there are good socialists and bad socialists. If every time a republican was guilty of a criminal act, all the newspapers said, "That is what comes of being a republican," we might begin to think all republicans bad men. It is a mistake to suppose that socialists belong to the criminal classes. Those who have worked among the criminal classes and carefully studied them will tell us that almost no socialists are found among them. At the same time it must be said that the socialists have been most unfortunate in a large proportion of their public representatives, especially of their noisiest representatives, who have secured the largest amount of attention. Some of them have been vicious men, and many of them have been

bitter and vindictive. Needless animosity has been aroused and class hatred nourished. The cause of progress has thus been seriously injured. Furthermore, a number of questions having no connection with socialism have been, even by socialists, associated with it. Infidelity and free love may be mentioned. Of course these have nothing to do with socialism. Socialism has done harm on account of the manner in which it has been too frequently presented, and it has also accomplished good, but the best effects of socialism have been its indirect and not its direct consequences.

Anarchism.—It remains only to make a few distinctions. Socialism has been described as industrial democracy established and controlled by government. There are, however, those who hold that if all government were abolished men would freely and spontaneously form co-operative groups which, federated, would manage all production. These men attack government and deny the moral right of man through government to exercise authority over his fellows. These are the anarchists, sometimes called anarchist-socialists. The writer frankly confesses his inability even to imagine how this kind of socialism could be made to work in actual life. Scientific anarchy is something he cannot picture to himself as any thing more substantial than a dream. When socialism is defined so as to include anarchy, we have two kinds of socialism—namely, anarchy and collectivism; collectivism meaning what has been called socialism in this chapter. Collectivism is often used interchangeably with socialism, particularly in France.

Communism is an older term not now often used. It has been employed in the past to designate an extreme kind of socialism. Socialism when it means also equal distribution of products has been called by some communism, and the production and distribution of economic goods by the State was only then called socialism when unequal distribution of products was advocated. Some writers have called violent schemes of radical social reform communistic, and reserved the term socialistic for the more conservative plans of

reconstruction. All the existing communistic societies in the United States are, however, composed of peace men, who do not believe in war but in non-resistance. It is, perhaps, as well to abandon the attempt to make a distinction between communism and socialism, and to drop the word communism.

Kirkup's *Inquiry into Socialism* gives the best presentation of a very conservative kind of socialism. Kirkup, however, includes voluntary co-operation under socialism, and the socialism which he describes is not, strictly speaking, pure socialism. It is the substitution of the co-operative for the competitive principle. Other works are mentioned in Part VIII.

On bequest and inheritance read Mill's *Political Economy*, Book II, chapter ii, and Book V, chapter ix. Also the author's *Taxation in American States and Cities*, Part III, chapter viii.

CHAPTER VI.

MONOPOLIES.

1. Artificial Monopolies.—Only a word can be said about artificial monopolies. Businesses are artificial monopolies when they are made monopolies not by their own inherent properties but by legislative enactment or by the formation of a close connection with natural monopolies, whereby they are made to partake of the qualities of the latter. Kings and queens formerly granted exclusive business privileges to favored persons, and permitted no one except those named to engage in certain undertakings. These early monopolies became so odious that sovereigns were compelled to abandon their claims of right to grant exclusive economic privileges.

It is held that our American tariff laws create artificial monopolies, and, while their influence in this direction is undoubtedly vastly exaggerated, it seems scarcely possible to deny that they have assisted the producers of a few articles to form domestic combinations for the suppression of competition. The remedy suggests itself.

Patents.—Government creates exclusive privileges by copyright and patent laws, but this is done professedly in the interest of the general public and not of any favored class. Authors and inventors are granted exclusive rights in their productions for a limited period. This monopoly is considered a fit reward for valuable public services. Copyrights and patents have been objected to as interferences with natural liberty, but they appear to have justified themselves in the stimulus which they have given to authorship and invention. It must, however, be remembered that all intellectual effort is an historical product. The telephone, for

example, did not spring from the mind of one man, as Minerva from the head of Jupiter. The telephone was preceded by a century of scientific invention and discovery, most of it poorly enough remunerated. The telegraph was, similarly, the result of generations of careful, plodding industry of scores of men. Professor Henry, of Princeton College, whose services in connection with the completion of the telegraph were most distinguished, conscientiously refused to take out any patent. It also happens that several persons almost simultaneously and independently make the same discoveries and inventions. Now if the man who makes the finishing touches which lead to utilization of a long line of work alone is rewarded, it is like paying only the workmen who put the roof on the house. It is not generally understood how serious an interference with liberty patents are. A man who has a patent is allowed to say to all the rest of the world, "Because I have first done such and such things, you must not do them." Yet there may be those who about the same time, without any knowledge of him, had found out how to do them. When a principle existing in nature is allowed to be patented, and not merely the application of the principle, the interference with liberty becomes still stronger. The practical conclusion is somewhat like this: Patents, like copyrights, are beneficial. Experience seems to warrant this assertion. Patents do not, however, rest on so strong a basis as copyrights, because no two persons could ever write precisely the same book, and the fact that I have written a book in no wise keeps you from writing any book you please. Patents should not be granted on light and trivial grounds, and the period for which they are granted ought to be strictly limited, and subterfuges for the evasion of this limitation ought not to be suffered to succeed as at present. Moreover, owners of patents ought to receive their patents on conditions which will compel them to use them or allow them to lapse; perhaps, also, to grant to others the right to use the patent on payment of a reasonable royalty. Laws ought also to be changed so as to prevent such an abuse of patents as we have

frequently witnessed in our rural districts, where farmers have been induced to infringe patents unwittingly in order that damages might be collected from them. The suggestion of the gentleman who is Commissioner of Patents at the time this is being written, that the right of purchase of a patent be reserved by the United States, is to be commended. Our patents at the present time promote monopoly, and in some cases interfere senselessly, it is to be feared, with manufactures. The patent laws require to be simplified and amended and their abuses removed. At the same time reward should in some way always be provided for those who make valuable inventions.

2. Natural Monopolies.—Natural monopolies have already been treated in other chapters of this book. It now remains to sum up and complete what has been said and to consider them with particular reference to distribution. Natural monopolies are those businesses which become monopolies on account of their own inherent properties. The principal ones have been enumerated. They are wagon-roads and streets, canals, docks, bridges and ferries, water-ways, harbors, light-houses, railways, telegraphs, telephones, the post-office, electric lighting, water-works, gas-works, street-cars of all kinds.

A writer of merit * has given the following characteristics of natural monopolies which will help the reader to understand why they must be monopolies:

"1. What they supply is a necessary.

"2. They occupy peculiarly favored spots or lines of land.

"3. The article or convenience they supply is used at the place where and in connection with the plant or machinery by which it is supplied.

"4. This article or convenience can in general be largely, if not indefinitely, increased without proportionate increase in plant and capital.

* Mr. Farrer, in his book *The State in its Relation to Trade*, in the "English Citizen Series."

"5. Certainty and harmonious arrangement, which can only be maintained by unity, are paramount considerations."

Combination and Competition.—It was long ago said by a shrewd English engineer that where combination is possible competition is impossible. Combination is always possible in the case of undertakings which are natural monopolies. It is inevitable, for it is not only cheaper to do a given amount of business by a monopoly than by two or more concerns, but very much cheaper. If two gas companies in a city, having each a capital of a million dollars, operating separately are able to make ten per cent. profits, when combined they will make much more than ten per cent., possibly even fifteen or twenty per cent. There is a force continually at work drawing them together. It works as constantly if not as uniformly as the attraction of gravitation, and in the discussion of natural monopolies we can safely predict consolidation. That part of political economy which deals with natural monopolies more nearly resembles physics or astronomy than any other part of our science.

We are not left to general principles. The testimony of experience is ample. There is never any real competition in the field of natural monopolies. There is war to settle the terms of combination, and popular language which uses the word war, as "gas war," "railway war," etc., is scientifically correct. Competition is a steady, permanent pressure, while war is destructive, and seeks to damage an enemy in order to make peace advantageously. No doubt it has been tried over a thousand times to compel gas companies in a city to compete, but in the world's history it has never succeeded, and it never can succeed. The same may be said with reference to telegraph companies. We have had, probably, over a hundred different companies in the United States. England has tried competition over and over again. At present real competition in the telegraph business exists in no country in the world. It will never exist. Railways have in all European countries combined, and the apparent com-

petition in this country is illusory and temporary. Combination is going forward with unprecedented rapidity.

What shall be our policy? Monopoly is inevitable. Private monopoly is odious. Public monopoly is a blessing, and the test of experience approves it. Again and again it has been tried with fear and trembling, but the results have in the long run been gratifying. Public ownership and management of railways have in Germany succeeded in many respects even better than their advocates anticipated, and the opinion of experts in Germany favors them almost if not quite unanimously. The writer happens to know of no exception.

But shall we at once try to substitute public ownership and management of natural monopolies for private ownership and management in the United States? The private interests opposed to this step, the apathy, indifference, and prejudice to be overcome, are so tremendous that there is no sort of danger of moving too rapidly in this matter. What the writer would advocate is limitation of charters for natural monopolies and an extension of the reserved rights of the public in order that such changes as shall finally be decided to be beneficial may be easily and readily made. The right of purchase of a natural monopoly without paying any thing for the franchise itself, but only for value of capital actually invested, and for its value in its condition at time of purchase, ought always to be reserved. Local natural monopolies ought to pass into the hands of local authorities as soon as possible, and no charters ought hereafter to be granted for private gas, water, or electric lighting works. Always begin reform at home.

The Advantages Claimed. — The advantages which it is claimed that public ownership and management will bring are many, and the principal ones will be briefly enumerated.

1. **Increase of Public Prosperity.**—First, a diffusion of their income among the community will take place, and this will tend to prevent an undue concentration of wealth,

while it will promote general prosperity, the ideal of the fathers of the American republic. How profitable natural monopolies are may be seen from the fact that they are the source of most of the enormous fortunes of our country. The income from them may be diffused in two ways : First, charges may be placed so low that price will simply cover cost. This is the method pursued by our post-office and by the English telegraph. Second, a profit may be derived from these pursuits, and this used to lower taxes or to do things of benefit to the people as a whole, as to improve our roads and streets and all our schools, to encourage art and literature, and the like. A middle course may be taken. Prices may be reduced and a moderate profit used for public purposes.

2. Economy.—The second great advantage claimed is the greater economy of public ownership and management, whereby the products to be distributed will be increased. We may thus avoid the larger portion of that waste of which socialists complain without abandoning the fundamental principles of the existing order. It is in fact the bad management of natural monopolies which has given to socialism a considerable part of its strength.

How enormous the waste of attempted competition and war in the field of natural monopolies is may be seen on every side. The construction of only two needless parallel lines of railway in the United States, the West Shore and the Nickel Plate, extending together from New York to Chicago, wasted two hundred millions of dollars; a sum sufficient to build two hundred thousand homes for a million people. Probably the waste in railway construction and operation in the United States during the past fifty years would be amply sufficient to build comfortable homes for every man, woman, and child now in the country.

Every city shows that attempted competition eats up a large part of what might be profit. Gas can well be supplied for a profit in great cities, if the business is a perfect mo

nopoly, for seventy-five cents. English cities supply it for less. The city of Wheeling supplies gas for ninety cents a thousand and makes money. The Baltimore gas company charges one dollar twenty-five cents a thousand—the price fixed by the Legislature—and apparently is not earning a great deal of money for the stockholders. What is the reason? Simply this: that the present is a combination of half a dozen or more companies which have built works, dug up the streets, put gas-mains in them, and run pipes into the houses and the like. An enormous sum of money, millions of dollars, has been wasted, and this waste is represented by bonds on which interest must be paid, as well as by an enormously inflated capitalization. The capital has simply been wasted. No one has received the benefit, but the people of Baltimore have suffered the loss, inconvenience, and damage of uselessly torn up streets. The experience of Baltimore is that of nearly all American cities.

Municipal ownership and management of natural monopolies is every-where in Europe being substituted for private ownership, and there the question may be regarded as practically settled by the test of experience. Public opinion increasingly favors public enterprise in the United States, and several cities are making moves which will sooner or later result in an increased number of municipal undertakings in our country.

When services of a monopolistic nature are performed by the public, water, gas, and electric lighting services can all be combined, and great economies secured. A better management is the result. It is only a popular superstition that private enterprise is superior to public enterprise. Each is superior in its own field. The author has received returns from about twenty American cities owning and operating electric lighting plants, and finds that the average net cost per night is under fourteen cents per light of two thousand candle-power, while seventy-five private companies in different cities examined charge on an average over forty-two cents for the same service—or over three times as much.

This superiority of public enterprise is not exceptional. The writer has had for three years some considerable experience in the use of post-office and express companies, and has yet to find one instance in which when a mail and express package were sent at the same time from the same place to the same destination the express package reached its destination as soon as the mail. Any one may try the experiment for himself. He has also found the post office incomparably more obliging and desirous of doing all that he asked. It seems to make little difference how mail is addressed. If any sort of clue is given it reaches its address. American telegraph service is also inferior to foreign, and in its efforts to accommodate the ordinary citizen inferior to our post-office. In other countries telegrams can be sent for as low as nine cents for ten words, and in England we have one uniform charge of twelve cents for twelve words. We must pay as high as one dollar for ten words in the United States. Of course, distance is a small matter. Nothing is actually carried. The post-office actually carries things, and yet, notwithstanding our long distances, no country carries letters for lower charges than the United States.

Nor is it true that private enterprise takes the initiative in improvements. English municipalities have gone ahead of private gas-works in improvements. The English telegraph is introducing improvements which our American telegraphs are strenuously resisting. The burial of wires in cities is only one of these improvements. The American post-office went ahead of American express companies in developing the money-order business. A private savings bank in Baltimore follows the lead of the English postal savings bank in the establishment of branches and the use of stamps pasted on cards until a minimum sum for deposit is reached. Government has gone ahead of private corporation in publicity of financial accounts, and has shown many of the pecuniary advantages of publicity.

3. **Purification of Politics.** — The third great advantage of the public principle for natural monopolies is the

purification of politics. Private monopolies must be controlled by public authority, and control means interference with private business, and this begets corruption. Wherever electric lighting is supplied by a private corporation the stock is distributed "where it will do the most good," among influential citizens, newspaper proprietors, and politicians, and we have a powerful factor arrayed against good government. This is why American citizens pay such large sums for the services rendered by corporations, and one reason why the government of American cities is so expensive. When, however, we have public ownership and management of natural monopolies public interests and private interests are identified, and the best citizens are on the side of good government. Those who take pains can observe evidences of this on every hand. Mayors, where electric lighting is done by the municipality, will testify to the good political effects. We have here the suggestion of the true way to reform our civil service. It is idle to say, "Wait until our civil service is better, and then we will introduce the principle of public ownership and management of natural monopolies." The industrial reform must precede, for that alone can open the door to thorough-going reform of our administration.

The reforms advocated will give talent a career in the service of the State, and private business will absorb only its legitimate share of the talent of the country. The danger of mercantilism will thus be counteracted.

4. Will Overthrow Artificial Monopolies. — The fourth advantage claimed is that the discrimination between public and private business here advocated will prevent the existence of many artificial monopolies which are oppressive. Certain business men have been favored by those in control of natural monopolies, as, for example, in lower freight rates, and have built up artificial monopolies. The just and equal treatment of all citizens by all natural monopolies would help to give all a fair chance, and would confine the concentration of business to its legitimate limits.

The principles underlying natural monopolies deserve to be carefully studied, and it is suggested that they afford good opportunity for the exercise of whatever faculty one may possess or may acquire for the observation of industrial phenomena.

See Ely's *Problems of To-day*, chapters xvii–xxxi.

CHAPTER VII.

A FEW ADDITIONAL REMARKS ON SOCIAL PROBLEMS AND REMEDIES FOR SOCIAL EVILS.

THERE are many social problems, and they are by no means entirely economic in their nature. They all, however, have their economic side, and the province of the economist is to look at them from the economic stand-point. When we discuss distribution we treat social problems not merely from the economic stand-point, but from the point of view of distribution, recognizing, however, that they pertain as well to production.

The most prominent of the present social problems which are chiefly economic have already been mentioned and discussed with more or less fullness. It now only remains to say a few additional words about these and to call attention to one or two other social problems not yet mentioned directly; also to make some remarks on remedies for social troubles.

Child Labor is one of the most serious evils of our day, and it is increasing with alarming rapidity in the United States, growing far more rapidly than population. It is one of those things which never regulate themselves, but which, unregulated, as all experience shows, go from bad to worse. Only laws with severe penalties for disobedience and special factory inspectors for their enforcement can lessen this evil. With these laws must be coupled compulsory education, with adequate provision for its enforcement by means of truant officers and the provision of truant schools. It is thus that Massachusetts, the banner State of the Union in this as in all legislation touching the laboring classes, has greatly lessened the evil of child labor. No one under fourteen should be al-

lowed to work in factories ; from fourteen to seventeen, afternoon and evening continuation-schools should be furnished with compulsory attendance for a minimum number of hours; and from fourteen to eighteen, for moral and physiological reasons, the hours of labor should be limited to a maximum of ten on every day except Saturday, when young persons should not be allowed to work after one o'clock in the afternoon. This regulation ought likewise to apply to married women in order to guard the interests of the home. The labor of women is increasing frightfully in factories, far more rapidly than the growth of population or the labor of men. Women ought to be surrounded with every safeguard for health, every provision for decency and comfort ought to be provided, machinery should be fenced in, employers rendered liable for accident, hours of labor ought to be strictly limited on physiological principles, especially until maturity ; work for a period prescribed by physiology and hygiene, in the interests not merely of mothers but of the rising generation, ought to be entirely prohibited before and after confinement; finally, work under ground, and other places dangerous to morality ought to be abolished. We Americans have lagged far behind Europeans in all these matters.

Involuntary Idleness is a serious social trouble. It appears that wage-earners are idle about a tenth of the working-days in the year on an average, and some of them for several months each year. Only a small part of this idleness is due to strikes and lockouts, only about one per cent. in Massachusetts. Leisure forced upon one does only harm. It leads to the formation of vicious habits, including drunkenness and vagabondage. As much work would be accomplished if wage-earners labored nine hours a day regularly, even if no increased efficiency were the result, and as increased efficiency is the result of shorter hours it is altogether probable that eight hours a day of regular work would produce as much as ten or eleven hours now with our periods of idleness. It may be a difficult problem to know how to effect the desired end, but certainly it would be a blessing to our entire social

life if work could be distributed regularly throughout the days of the year, with a few holidays, and a short vacation, but no idleness.

Intemperance has already been discussed. It is cause and effect of industrial conditions, but not merely of industrial conditions, nor even of social conditions. It is undoubtedly an individual matter, and appeals to individuals are in place ; but the influence of social conditions cannot safely be left out of consideration.

Pauperism springs from social causes already mentioned as well as from individual causes, and the remedy must come both through improved industrial and social relations and individual reformation. We are beginning to hear of a science of charity; and it is sorely needed, for old-fashioned alms-giving is a curse.

The Family is to be kept in view as the true social unit in all economic discussions, and divorce is one of the most serious evils connected with the family institution. The causes for divorces have been shown by the National Department of Labor at Washington to be largely economic. It is the pressure of economic wants in the lower middle class which is most fruitful of divorce.

Corporations have been already treated, and trusts have been alluded to. In general the writer opposes interference with combinations of labor and of capital. It has been productive of harm in the past. Whenever any pursuit is such that in that business combinations of labor and capital are dangerous, the legitimate conclusion is that it is not fit for private enterprise at all, but is suitable only for public management.

Remedies in General.—The most general remark in regard to remedies for social troubles is that there should be no needless interference of public authority with private business. This is the true source of corruption. If extensive interference is an inevitable part of any private business it is a sure sign that it should be made a public business.

Interference in behalf of labor is inevitable, but it should

be chiefly confined to the protection of women and children and to those who are naturally unable to help themselves. The general aim should be to educate both the bodies and the minds of the rising generation so thoroughly as to reduce the need of interference to a minimum.

Prevention is always better than cure. The constant aim of public authority and private effort should be to anticipate troubles and prevent their existence. It is a monstrous doctrine that the State can employ its functions and use public money freely to repress crimes, but may not spend a cent to prevent their existence. Some would have us think that the city of Chicago, for example, is warranted in spending hundreds of thousands of dollars, or even millions if necessary, to hunt down and hang anarchists, but not any money at all to provide play-grounds for children, breathing-places for adults, to improve the sanitary arrangements of the city, to provide wholesome recreation, and in general to remove, as far as in its power, all legitimate causes for discontent. It is not necessary to show the fallacy of this. Laws ought not to be merely mandatory and repressive. Legislation should hold out, so far as practicable, inducements for right conduct. It ought to strive, to an ever-increasing extent, to "attract" to right action, or to become, as it is technically called, attractive and positive.

Popular Suffrage.— Preparation for duties and privileges of life is a public and a private function, but the abolition of duties and privileges is exactly the wrong thing. Those who look at social problems from the standpoint of the few will desire among us, for example, to abolish universal suffrage and to restrict suffrage, while those who have at heart the welfare of the masses will be more inclined to say: "Rather prepare every person in America for the duties of citizenship. See to it that every American child is compelled to attend school at least six full years, and is taught some useful occupation. Diffuse in every way a knowledge of the duties and privileges of an American citizen, and not until that has been faithfully tried let us

think of a restricted suffrage. Do not take the suffrage from illiterates, but abolish illiteracy; and experience has shown that this is feasible."

It is seen that there is no one remedy for social evils. A multitude of agencies for good must work together. Private individuals and private associations of individuals must supply a multitude of these. Religion must furnish men with a motive power impelling them to see and do the right. Public authority must likewise do what it can for humanity. Men come forward from time to time with some one remedy, a panacea for all social evils, but they are distrusted, and the author thinks justly so. These reformers with one idea often have valuable contributions to our knowledge to offer but they exaggerate the importance of their one idea.

This part of our treatise cannot be better closed than by the following suggestive words from the last chapter of Professor de Laveleye's *Primitive Property:* "There must be for human affairs an order which is the best. That order is by no means always the existing one, else why should we all desire change in the latter? But it is the order which ought to exist for the greatest happiness of the human race. God knows it and desires its adoption. It is for man to discover and establish it."

PART V.

CONSUMPTION.

CONSUMPTION.

When the economist comes to treat of consumption he does not approach an entirely new set of economic phenomena, but he rather changes his stand-point. The same familiar topics occur under consumption which have already met us, but the point of view is a different one. Consumption and production are correlates. Consumption is the end of production, and production cannot exceed consumption. Production can merely anticipate consumption. Consumption is the motive power of production, and production goes forward satisfactorily only when there is a reasonable prospect of consumption for the producer. The toiler must see before him as a goal the consumption or the control of the consumption of at least a considerable portion of the fruits of his exertions. Arthur Young, as often quoted, said: "The magic of property turns sand into gold." The distinguished traveler had in mind peasant proprietorship, and consumption undoubtedly throws light on the nature and utility of private property. It is not, however, necessary that the cultivator or improver either of rural or urban land should enjoy the right of property in it to induce him to exert himself. English tenant farmers are among the best in the world, and men diligently improve real estate in American cities which they do not own. It is a prerequisite of a wide diffusion of economic energy that the fruits of the toil of one who conducts an enterprise should accrue to him, and that these fruits should increase in some kind of proportion to augmented diligence and efficiency. Rack-rents, which take all save enough to sustain life from either the rural or the urban tenant, oppression of government,

like the Turkish, which systematically robs the producers, and exactions of those railway and other corporations which are at the same time powerful and unscrupulous—all these and other similar agencies which discourage the producers are destructive. They take away from men the goal of consumption, which spurs them on.

Difficulties in Treating Consumption.—Consumption must be treated very briefly. Only a few main points can be touched upon. This part of political economy has not yet been sufficiently worked out for satisfactory treatment at length in an elementary work like the present. There are several reasons why this part of political economy is in a particularly backward condition. First, one may connect it with a general tendency to forget the end of life in our zeal to discover the means of it. Many a writer discourses about production as if it were in itself the end, and as if consumption were a misfortune to be reduced to its lowest terms. Second, consumption is in many respects more difficult to treat. Its laws are less readily discoverable. Production takes place often in the light of day. It is frequently concentrated in large establishments visible to all, and this is the case to an ever-increasing extent. A considerable proportion of consumption, on the other hand, is as widely diffused as the homes and dwellings of individuals and families. It is more or less covered up; in some cases even secret. Consumption now resembles in many of its aspects the old household production of economic goods in the days which preceded the science of political economy. Third, political economy deals with social relations, and it must be confessed that the social element is more universally prominent in the production of goods than in their consumption.

Consumption Defined.—As man creates no new matter, but only utilities, so he destroys no matter, but only utilities. Consumption means the destruction of a utility. Now, destruction of a utility is of two kinds; it may be simply the destruction of a concrete utility, or, more accurately,

the utility of a single concrete economic good, but a destruction without loss. The utility may pass over into some person or thing. We may also witness the destruction not merely of the utility of a particular thing but of the utility itself. This is the case when nothing is left to take the place of the utility destroyed. If we speak of the first kind of consumption as the destruction of *mere concrete utility*, we may call this second kind of consumption the destruction of *pure abstract utility*.

Consumption is one part of the productive processes. Commodities are destroyed. Their utility is destroyed, and they are no longer economic goods. Coal and lumber serve as illustrations. The utility of the coal and the lumber in their original form departs. A ton of coal is burned up and a log of wood is used up. The coal is gone and the log no longer remains; but all the utility in them has passed over into something else, and that with an increase of utility if the production in which the coal and the log of wood were employed has been successful. Things change their form in consumption as in production, but utilities may remain and grow. The utility does not necessarily pass over into a material thing. It may pass over into a person; and this is the kind of consumption which in general yields largest results. When consumption is attended with increase of utility we call it productive consumption. When we speak of the consumption of economic goods by persons we call every useful consumption of a useful member of society productive, and every useless consumption of economic goods, as the use of mere luxuries even by a useful member of society, as unproductive, and every consumption of whatever sort by a useless member of society is unproductive. Such a person is a mere cumberer of the ground. His consumption is mere waste, and he does not deserve to live.

Consumption and Capital-Formation.—When consumption leaves permanent results it is saving. Saving is but one form of consumption. Let us say a farmer raises one hundred bushels of potatoes, and with his family eats

fifty, while he exchanges the other fifty for the services of persons who produce luxuries for his table, at once also eaten. When the fifty bushels are eaten by the family and the other fifty bushels by persons who produce luxuries for the family, no permanent result is left. Now let us suppose that instead of using the fifty bushels to feed laborers who are growing luxuries for him, he uses the fifty bushels to construct a needed fence on the farm. The potatoes have all been equally consumed in both cases, but in the latter case we say the farmer has saved fifty bushels of potatoes; by which we mean that he has employed them so that a relatively permanent result of their consumption remains. The fifty bushels of potatoes have been eaten, but, as the farmer says, he "has something to show" for the consumption. Let us take another illustration. A. and B. have each an income in one year of one hundred thousand dollars beyond what they need to support themselves. A. spends his hundred thousand dollars in giving a series of magnificent entertainments, and thoughtless people say he is a man to be praised because he gives employment to labor. B. spends his hundred thousand dollars in constructing a factory. His acquaintances may not know what he is doing with his income, and call him a bad citizen, who gives no employment but "locks up his money," by which seems to be meant one who keeps from consumption commodities over which he has control. B. has, however, consumed or directed the consumption of as large a quantity of economic goods as A., and has something left to show for it. After he has given employment during the year to the men who have constructed his factory, he continues to give a number of men employment and opportunity for consumption indefinitely, while A.'s consumption has ceased once for all. It may be said that all truly unproductive consumption is immoral.

It is to be noticed that governments are more or less prominent in capital-formation. When our federal government pays off the national debt it forms capital. The means to pay the debt are collected in small sums from millions of

people who would not have used them for purposes of production, and then the aggregate is handed over to the holder of a written obligation, a bond, who uses them as capital. These means in the pockets of the people were not capital, and only a small proportion would have been turned into capital. There can be no doubt that debt-payment by the United States has increased the actual capital of the country. A part of this new capital, it is true, simply restored capital that had once existed and had been sacrificed years before. Similarly, when the United States expends its revenues for post-office and other federal buildings, and for wise internal improvements, it increases capital. It is a consumption which is at the same time a capital-formation. When municipalities establish gas-works, electric lighting works, and pay for them by taxes or by loans repaid by taxation, the capital of the country is increased. The people save a portion of their income through the agency of government, and it is the only way a large proportion of them can ever be made to save any thing.

We have capital-formation from the consumption of economic goods for the production of external material things, but we have what we may call personal capital-formation from the consumption of things by persons who are acquiring economic skill and aptitudes.

It must not be supposed that all saving is useful. Capital formed is frequently employed destructively. This is the case with capital which is used to make an attack on existing capital. Capital which is saved to build parallel lines of railway or rival gas-works like those which have afflicted the people of Baltimore is destructive. All these economic goods, so far as the general public is concerned, might have been far better consumed in pure enjoyment.

Alleged Present Consumption of Future Products. —We often hear of consumption in advance of production. It is said people live on the future. It is frequently argued that during our late war we were consuming faster than we were producing. It is alleged that the federal bonds repre-

sented the consumption of future earnings. Those who talk thus appear to have no clear notions. It is impossible to consume faster than we produce unless we consume past savings. We cannot eat to-day the wheat or potatoes of to-morrow, nor can we wear coats before they are made. What is alleged can only be true in case the capital of the country is diminishing, whereas during our late civil war it increased. What really happened was this: We as a nation became indebted to some extent to foreigners, and within the nation some of us gained while the rest of us were losing. Bonds do not represent a present consumption of future wealth, but a consumption of existing wealth for which a government agrees to remunerate its owners in the future. If war can be carried on with the aid of bonds it can—leaving out of consideration what foreigners send us—with a sufficiently perfect taxing machinery, conceivably always and practically sometimes, be carried on without bonds. It is only a question of how to get hold of existing wealth. War was formerly carried on without bonds, because they are a comparatively recent contrivance.

Prodigality and Avarice.—Luxury, which falls under the head of prodigality, has already been classed under motives of economic activity. It is now necessary to add a few further remarks to what has already been written in order to look at the subject from our new stand-point.

"When a king makes great outlays he gives alms," was the moral justification which Louis XIV. of France offered for royal extravagance, and even so really great a writer as Montesquieu said, "When the rich diminish their expenditures the poor die of hunger." It is to be hoped that the fallacy of these utterances is readily apparent to all who have carefully read what precedes. First, when we save we also consume and we give employment, and we give more employment when we make wise investments in productive enterprises, sometimes even a hundred times as much. Second, the possession of resources simply means control over labor and capital. We can direct them whither we will. We may

give them such direction that we ourselves will enjoy their products or that others will receive this enjoyment, as when we spend it for the benefit of humanity.

It is said that prodigality does no harm if money is spent at home. Those who talk this way have not grasped the A, B, C of political economy. It is not the money with which we are concerned. Money is only a small part of our wealth. It is merely "small change" in great industrial centers, and it is conceivable that circumstances may exist under which it would be the best thing for us to have money leave the country. If prices with us are abnormally high, foreigners cannot purchase our commodities, and our export trade will decline. What we have to consider in the case of prodigality is the destruction of materials and the labor which has been used up once for all, whereas both materials and labor ought to have been wisely employed. The one who has control over them is guilty of wasted opportunity.

If luxury is a good thing for the people, how does it happen that the masses in Oriental countries are so deplorably poor, whereas the few indulge in the most wanton luxury? Or how explain the growing poverty of Rome under the emperors while luxury was continually increasing until it became the most outrageous in history? Pearls were dissolved in wine to make it expensive, and tongues of birds which had been taught to talk were served at dinner because they were costly. Waste is waste, and no sophistry can make it any thing else. If a large proportion of labor and capital are employed in the production of luxuries, precisely so much less is left for the production of the necessities, comforts, and conveniences of life.

We must in the discussion of luxury as elsewhere distinguish between "the seen and the unseen," the unseen meaning simply what is not readily seen. The writer is acquainted with a university town where the "scale of living," as it is called, the general style of life, is set by university professors who are rich, and to whom their salaries are only one source among others of income. Doubtless tradesmen and thought-

less spectators praise the expensiveness of living, and say, "It makes trade good." That is "the seen." The "unseen" is the pain which it causes to other professors and instructors who must live only on their salaries; especially the pain to their wives. For them it is a continual harassing struggle which detracts from their usefulness and dignity. As for the rich professors, it is quite possible for them to live plainly, for them to set an example of "plain living and high thinking," and still spend all their incomes. Certainly no one is fit to hold a college professorship who does not see many ways in which all his own resources, however large, could be advantageously expended in advancing the interests of humanity in connection with the work of his own institution.

It has been said that luxury is a reserve fund; that in times of general distress we have something with which to dispense. There is some truth in this, but it is quite clear that widely diffused comfort, with a plentiful supply of saving institutions well patronized, is a better reserve fund. After the late Franco-German war it was the frugal, thrifty classes who lived simply that astonished the world with their reserve fund. When France called for billions of francs, peasants, artisans, mechanics, and careful fathers of families came forward with their hard-earned savings and subscribed for more bonds than were offered.

At the same time it is true that if all should restrict themselves to the bare necessities of life a great portion of existing capital and labor would be unemployed. It is possible in every civilized land to produce more than the bare necessities for all. It has only been said that luxuries are not necessary to give employment. Many costly things are desirable. Magnificent art galleries, grand universities, splendid public schools of every grade, fine architecture, especially in public buildings and churches, extensive pleasure-grounds and play-grounds for the people in every city, and even in every town and village, all these are among those things on which unlimited capital and labor can be expended. These things, involving large outlays, ought to be public institu-

tions. It is the extensive use which justifies the great expenditures. It has been characteristic of periods of national decay that private persons have indulged in expensive luxuries while public institutions have fallen into decay. It is said that in the time of Pericles, the days of the glory of Athenian democracy, one third of the revenues of the State were expended in plastic and architectural art, while in the time of Demosthenes complaint is made of the shabbiness of public buildings.

Avarice is injurious, though probably less dangerous, because less seductive, than prodigality. The avaricious man sacrifices the end of life to the means and compels others to do so. He may increase the wealth of the country, but he allows no one to enjoy it fully, and fails to put it to the best use.

Expenditures are justifiable which tend to the development of our faculties. The requirements of ethics are that we should develop ourselves and help to perfect the rest of humanity. If we neglect our own highest development humanity suffers. When we weigh in the balance our own needs and those of others we should have this in mind. We should also strive to render ourselves independent, so that we may not become a burden to others. Our generosity is ill-advised if it results in our own impoverishment, and may produce more harm than good.

Ethics requires self-sacrifice. Self-sacrifice degenerated becomes asceticism. Asceticism is self-denial for its own sake and not for others. It is like the perversion of charity. Charity in one of its forms, alms-giving, was in the best days exercised for the sake of the needy, but when the Church became degenerate it was exercised for the sake of the giver, and became thoughtless, inconsiderate giving, and a curse to the world.

We should cultivate inexclusive pleasures rather than exclusive pleasures. A picture is an inexclusive pleasure. Thousands may enjoy it. Costly wines are exclusive pleasures.

Combination for use of things consumed increases their utility. A public library or a public art gallery serves as an illustration. Combinations for use of means of communication and transportation make railway service cheap. Combinations for cooking and serving food have been proposed, and co-operative kitchens may yet spare overworked mothers much toil and help to develop the home-life of the masses in great cities.

Wasteful Consumption.—We must first notice that that is often called a waste which is really a productive consumption. If nothing is left to show for what is consumed, we must call it a waste. If the consumption of an article like tea, however, really promotes domesticity, and cheers and soothes the mind, if it adds to the comfort of life of those who have few pleasures, it is by no means a waste. Something is left to show for it. Expenditures for recreation, for wholesome entertainments, for whatever promotes domesticity and sociability, are among the most productive.

It does, however, often happen that nothing is left to show for consumption, and then it is unproductive consumption; a destruction of concrete and abstract utility; a waste.

Every change of fashion involves waste, a partial destruction of values created. The Society of Friends, usually called Quakers, in resisting changes of fashion, pursues the only course which can be justified ethically.

Fires are wasteful, and any effort to diminish their frequency or to extinguish them expeditiously deserves the heartiest commendation.

Nature is continually engaged in wasteful consumption of economic goods, and man is obliged to wage a continual warfare with her. This waste goes on all the time, but the most important economic waste is caused by the death of man, the chief agent in production.

The use of liquors and tobacco, which, when the totality of their results is computed, leave less than nothing positive to show for themselves, is a waste already treated.

Unwise consumption is a partial waste, and the American people is guiltier than any other civilized nation in this respect. We have in the West and North come to consume wheat almost alone for bread, and neglect corn and rye, and often the sole reason is that wheat is more expensive. Even with our wheat bread we use flour so finely bolted that our bread tastes like wooden chips to a man with a normal taste, and it is difficult in small towns to purchase flour from which the best elements have not been removed. We use only few kinds of vegetables in our rural districts and too often only few in the cities. We use insufficient variety of meats, and reject some of the best parts of meat-animals in large sections of the country. Professor Patten has shown that this renders food needlessly expensive. The variety of soils is great, and some kinds are suited for certain food products, others for a different kind, still others for a third kind, and so on indefinitely. When we use varied foods each soil can be put to the best use, but when we demand principally one or two kinds of food we will find these kinds grown on land not adapted for them, as wheat on land suitable for maize or barley.

Consumers and Producers not Two Distinct Classes.—Consumers and producers are the same people, drones excepted. Producers want consumers, but they only want those who have something to give in exchange. If they merely want to part with their things they can find beggars in abundance to relieve them. Now something to give in exchange means production, and production increases demand for commodities. It is a mistake to look at economic life exclusively from the stand-point of either producers or consumers. The free-traders have been too inclined to consider consumers alone, the protectionists producers alone; and thus a tendency to one-sidedness has been fostered. At the same time it must be frankly acknowledged that there is more danger to be feared from an exclusive consideration of producers, because there are so many kinds of production and their interests are so diverse. There is not the

same diversity of interests among men regarded as consumers. Nevertheless both extremes ought zealously to be avoided.

Crises.—We come again to the topic of crises in industrial life. Crises are attended with a glut in the market, and it is said that they are caused by overproduction. A French economist, M. Jean-Baptiste Say, however, has developed what is called a *theory of the market*, which has quite generally been accepted by economists. It is that there is no such thing as overproduction, and never can be until all wants are satisfied. He says that the remedy for apparent overproduction is more production. Men bring commodities to the market. What do they desire? Not money, says Say, but commodities, money being a mere medium of exchange. Now we have already seen that a consumer is a producer. If there is a deficiency of consumers it must be because those who would like to consume have not produced economic goods for exchange. Overproduction, so called, is really underproduction, according to this theory. There is a large measure of truth in this theory. When are we most troubled with a glut in the market? Undoubtedly when least is produced. When is there the most ready sale for commodities? Undoubtedly when every body is at work, or when most is being produced.

There is, however, another side to the question. It is quite possible to produce a larger quantity of some commodities, as potatoes, cotton, cloth, etc., than people need. More railways are often produced than the people need at the time. The effect of disproportionate production is this: Some commodities cannot be exchanged. Those who have produced them do not make their normal purchases. There is a falling off in sales of some other commodities, and among those engaged in producing these other wares some cease to produce. Demand again falls off, and still others cease to work, as already explained. There is disproportionate production and overproduction of some

things, and finally general overproduction, owing to underconsumption, due in turn to lack of purchasing power.

The intervention of money is an important factor. Undoubtedly commodities are in the end exchanged for commodities, but the intervention of a medium of exchange produces weighty consequences. Commodities are in the first instance exchanged for money, and all liabilities must be met in money. Houses, lands, etc., can only indirectly pay debts, and at times cannot rescue one from bankruptcy. Changes in money-supply, especially a contraction of the volume of money, will render it impossible for producers to meet their engagements; production will begin to diminish, demand will begin to decrease, and the result is apparent general overproduction.

Remedies for overproduction or underconsumption, as one will, are many. Whatever improves industrial society in any respect is a partial remedy. It is especially desirable, however, to bring producer and consumer as near together as possible, because it often happens that mutually desired products cannot, as a matter of fact, be exchanged. Obstructions to trade should be reduced to a minimum where they cannot altogether be removed. It may in this connection be mentioned that toll-roads are among the worst of obstructions to free exchanges, and are an anachronism which no enlightened community should tolerate.

Control of Consumption.—Sumptuary laws have existed in the past, and have attempted to control consumption, in particular, to prevent extravagance. Sumptuary laws are now generally considered as antiquated, but it can scarcely be doubted that in the past, in a time different from ours, they have done good. Historical institutions generally have had good grounds for their existence, which they do not have when they outlive the period for which they were suitable. As a rule sumptuary laws are not adapted to modern times.

The temperance agitation is designed to control consumption of one kind, and, whatever may be thought of particular measures, it is on the whole an excellent thing. It has arisen

out of the needs of the time. It does not diminish consumption as a whole, but only one kind of consumption. We have in Europe and America numerous remarkable instances of an increased general consumption following a decreased consumption of intoxicating beverages, showing that capital and labor have found more abundant opportunities than before for profitable employment.

Ohio and Massachusetts have attempted a partial control of the consumption of tobacco by making it a punishable offense to sell cigarettes to boys, and if any way to enforce the law can be found their example is worthy of imitation.

The control of consumption is so difficult that it must be left for the most part to voluntary agencies, like the Church, and associations formed for this and other purposes. Rulers and leaders of society can do much by a praiseworthy example of simplicity and frugality. The sovereigns of Prussia, the House of Hohenzollern, deserve commendation for their example, which has helped to make Germany powerful, while French sovereigns have helped to degrade France by extravagance. The alleged growing extravagance at our own federal capital, Washington, is to be deprecated as a national calamity.

Curiously enough, one of the worst kinds of extravagance in the past, as in the present, is connected with funerals. This evil has become so great with us that a society has been formed expressly to correct extravagance at funerals, and the Bishop of the Episcopal Church for the diocese of New York, Dr. Potter, has become its president.

Insurance is a control of certain kinds of consumption. Fire insurance, insurance against hail, against accidents, etc., is a contrivance whereby individual losses are distributed among many, and the burden to any one reduced. It is a fine example of solidarity of the right sort. Life insurance is somewhat similar, although it is in some of its aspects more like accumulation by saving a part of one's income. Savings banks, building associations, mutual aid societies, and the like, help us to control consumption and to distribute it advantageously.

Analysis of Consumption.—An analysis of the consumption of individuals, families, and societies is most instructive. An analysis of the expenditures of a family is called a family budget. Dr. Eduard Engel, the former distinguished head of the Prussian Statistical Bureau, has advanced the theory that it might be possible by a careful study of a sufficient number of family budgets for a period of years to construct a sort of *social signal service.* His idea is that changes in total expenditure and in expenditures for various items in a sufficient number of typical families could enable us to predict the coming of industrial storms. The theory has not, so far as the writer is aware, ever been fully worked out, but the thought is suggestive.

The following tables copied from the Report of the Massachusetts Bureau of Statistics of Labor for 1885 are worthy of careful examination :

ENGEL'S LAW.—PRUSSIA.

Items of Expenditure.	Percentage of the Expenditure of the Family of					
	A working-man with an income of from $225 to $300 a year.		A man of the Intermediate Class ("Mittelstandes") with an income of from $450 to $600 a year.		A person in easy circumstances ("des Wohlstandes") with an income of from $750 to $1,100 a year.	
	Per cent.		Per cent.		Per cent.	
1. Subsistence	62.0	95.0	55.0	90.0	50.0	85.0
2. Clothing	16.0		18.0		18.0	
3. Lodging	12.0		12.0		12.0	
4. Firing and Lighting	5.0		5.0		5.0	
5. Education, Public Worship, etc	2.0	5.0	3.5	10.0*	5.5	15.0
6. Legal Protection	1.0		2.0		3.0	
7. Care of Health	1.0		2.0		3.0	
8. Comfort, mental and bodily recreation	1.0		1.5		3.5	
Total	100.0		100.0		100.0	

* These figures foot up nine instead of ten. They are given as found in the report of the Massachusetts Bureau.

"The foregoing table demonstrates the points upon the strength of which Dr. Engel propounds an economic law.

"The distinct propositions are :

"First. That the greater the income, the smaller the relative percentage of outlay for subsistence.

"Second. That the percentage of outlay for clothing is approximately the same, whatever the income.

"Third. That the percentage of the outlay for lodging or rent, and for fuel and light, is invariably the same, whatever the income.

"Fourth. That as the income increases in amount the percentage of outlay for sundries becomes greater."

MASSACHUSETTS.—PERCENTAGES OF EXPENDITURES.—AMOUNT, $754 42.

Items of Expenditure.	Mass. Budgets, 1883.	Engel's Prussian Law.	Mass. Bureau Table, 1875.	Average.
Subsistence.....	49.28	50.00	56.00	51.76
Clothing.....	15.95	18.00	15.00	16.32
Rent..... ..	19.74	12.00	17.00	16.25
Fuel.....	4.30	5.00	6.00	5.10
Sundry expenses...	10.73	15.00	6.00	10.57
Totals.....	100.00	100.00	100.00	100.00

COMPARATIVE PERCENTAGES OF EXPENDITURES BY THE FAMILIES OF WORKING-MEN IN ILLINOIS, MASSACHUSETTS, GREAT BRITAIN, AND PRUSSIA.

Items.	Illinois.	Massachusetts.	Great Britain.	Prussia.*	Average.
Subsistence...	41.38	49.28	51.36	55.00	49.25
Clothing.....	21.00	15.95	18.12	18.00	18.27
Rent.....	17.42	19.74	13 48	12.00	15.66
Fuel.....	5.63	4.30	3.50	5.00	4.61
Sundries.....	14.57	10.73	13.54	10.00	12.21
Totals....	100.00	100.00	100.00	100.00	100.00

These tables will help us to understand the social troubles of our time. They show that the amount which working-men

* It is to be noted that for Prussia a family of the intermediate class is taken.

have for all the higher wants and for health and recreation is still extremely small. Civilization develops the higher wants, but the improvements of the distributive processes of industrial society have not kept pace with the development of these wants.

Professor Patten's Essay on *Consumption* in Science Economic Discussion, his *Premises of Political Economy*, and his monographs *Stability of Prices* and *The Consumption of Wealth*. Roscher's *Political Economy*, English translation, Book IV. J. B. Say's *Political Economy*, American edition, Book I, chapter xv, *On the Demand or Market for Commodities*. Temperance tracts and publications, including *The Voice*, of New York, and *The Union Signal*, the organ of the National Woman's Christian Temperance Union, of Chicago.

PART VI.

PUBLIC FINANCE.

CHAPTER I.

INTRODUCTORY.

Earlier economic treatises had no special part devoted to finance, but usually included a few more or less valuable observations on taxation under some more general head, as "functions of government," or "consumption." When it was included under consumption it was implied that government consumed but did not produce, and such a sage remark as this embodied the economic wisdom of many a text-book: "That tax is best which is least in amount!" The development of economic science has in recent years been so rapid that now arguments against any discussion of finance in an elementary treatise are likely to take this shape: "The subject of finance is so truly immense, and its peculiarities are so many and so far-reaching in their character, that it is better to make a separate science of it, at least a separate volume of a larger whole, and not to enter upon topics which cannot adequately be presented in short space." It is true that the difficulties of one who would say any thing about finance in ten or a dozen pages are not a light matter; yet it does not seem scientifically satisfactory to pass over one of the most important parts of political economy without a word. It is not, indeed, necessary. An impression of the nature and scope of finance may be presented to the reader without any attempt to enter into details, which would be simply confusing, and even misleading, in so short a space.

What is Public Finance?—It is often defined as the science which deals with the acquisition of the public revenues, with their management and their expenditure. If we

regard it not as a science by itself we should substitute *part of political economy* for science. It is that part of political economy, etc.

We often, and perhaps generally, say simply finance, instead of public finance, but as private finance and private financiering are used, public finance may properly be employed as more explicit. The use of the word here given is that which corresponds to the same word in the languages of the Continent of Europe, and is that which is found in the most careful English authors. Curiously enough, a careless employment of finance has become too common, which renders it equivalent to a discussion of money and banking. We thus have popular works which profess to treat of finance and yet say nothing about it. Money and banking belong to another part of political economy.

Significance of Finance.—The business of government is the largest business in any great modern nation. A man died a few years ago who left to his family two hundred millions of dollars, and his fortune was spoken of as colossal. Some time since the annual revenues of our various governments in the United States, federal, State, and local, were over three times that amount, and the author's investigations lead him to believe that they are now quite four times as much, or at least eight hundred millions of dollars. The capitalization of the Western Union Telegraph, eighty millions or more, is considered enormous, but the surplus revenue of the United States government above necessary expenditures for a single year would more than purchase all the telegraph lines in the United States, even at their inflated valuation.

The Sub-Treasury System.—The business of government is so large and so penetrating in its character that it affects vitally every other business in the country. If our governments received a large surplus in money every year and kept it from circulation we would shortly have a stringency in the money market which would produce a terrible panic. It is, in fact, this, among other things, which renders our

surplus federal revenue so difficult a problem. The United States alone among nations locks up its money. This is a feature of what is called our independent or sub-treasury system. The federal revenues flow into these sub-treasuries and can only get out in payment of claims on the United States, whereas other governments have some kind of connection with banks, perhaps national banks, and do not take out of circulation the money received. It has become necessary in the past to pay interest on the federal debt, the bonds, before it was due, in order to restore the money to circulation, and at the present time bonds are purchased at a premium before they are due in order to put the money in circulation.

Government Business.—We have another range of considerations connected with the financial affairs of government. Government is the largest employer of labor in the country, and all other employers and all employés are more or less affected by the manner in which it treats its employés. Shall government as employer be influenced by the demands of ethics? Undoubtedly; as government is an ethical person, government ought to be the model employer, insisting upon justice in service and granting justice in conditions of service and in its remuneration.

Government Expenditures.—The importance of finance becomes even more apparent when we become familiar with the magnitude of the revenues and expenditures of governments in modern times. The fact is often cited that the expenditures of England from 1685 to 1841 increased forty times while the population trebled; but this is only one of hundreds of facts, all equally striking, and this increased expenditure is equally found in every modern nation. The French budget, as the detailed statement of revenues and expenditures is called, exceeded one thousand millions of francs in 1828, for the first time, and there was general alarm on account of the large expenditures; but since that time no budget has called for smaller expenditures, while in 1860 they amounted to two thousand millions of francs, and

since then they have never been less than that sum. In 1877 they were over two thousand six hundred millions, and, adding local expenditures, over three thousand millions; as large an aggregate as the expenses of the people of the United States. The expenditures of Great Britain decreased after the Napoleonic wars on account of cessation of war expenditures, which are abnormal; but we notice a steady tendency to increase since 1833, as indicated by these statistics: 1833, £48,786,047; 1843, £55,360,511; 1859, £64,805,872; 1874, £73,211,815, and including payment for Alabama award, £76,328,040; 1875, £74,328,040; 1880, £84,105,754; 1885, £89,092,883; 1886, £92,223,844; 1887, £89,996,752; 1888, £87,423,645.

The local expenditures of Great Britain, as of all other countries, have been increasing more rapidly than national expenditures. This table shows the increase in the federal expenditures of the United States:

Years.	Civil establishment.	Total expenditures less interest on the debt.	Net ordinary total expenditure including interest, but not bond purchases.
1828.....	$3,676,053	$13,296,041	$16,394,842
1844.....	5,645,184	20,650,108	22,483,560
1860.....	27,977,978	60,056,754	63,200,875
1887.....	85,264,825	220,190,603	267,932,180

The following table shows increase in expenditures of federal government from 1796 to 1887, and increase in expenditures of fourteen States of 1796 during the same period, and an increase in expenditures of all our States:

	1796.	1887.
Expenditure for civil government in States named.	$1,000,000	$65,000,000
Federal expenditure.....	5,790,651	267,932,180
Expenditure of all the States.....	1,000,000	101,534,523

The State taxes of Ohio increased forty-six times from 1826 to 1886, and the taxes for local purposes over a hundred times. The local taxes of New York increased fourteen times between 1827 and 1887.

These increased expenditures are not due to dishonesty. Probably on the whole administration of government has improved rather than deteriorated during the present century, and where government is most undoubtedly honest we find larger increase than in many other places. The administration of American cities is inefficient and too often corrupt, but the administration of English and German cities is unquestionably pure, and that of German cities, conducted by men trained for this work, is skillful. Yet the expenditures of these cities appear to have increased as rapidly, and in many instances, in Germany at least, more rapidly, than those of American cities. We are dealing with world-wide phenomena. The explanation is easy, and proves what has already been stated in this book: that while government activity is wiser than previously it was never before so extensive and important. The functions of government are measured in a rough sort of way by expenditures of government, and after we have made due allowance for depreciations of money and other counteracting forces it must be admitted that the present generation, still more the present century, has witnessed a marvelous and on the whole beneficial extension of the business of government, accompanying a diminution in petty interferences with individual action. Public schools occur to one as a new source of expenditure every-where in the civilized world. Sewerage, sanitation, gas, and electric lights, public parks, public baths, public libraries, all these are among new items in the budgets of cities. Fine State universities all over the world are being supported by enlightened democratic sentiment out of public funds, and it is probable that in a not distant future some of the greatest American universities will be found among the best of the State universities of our West. Expenditures for works of art are common, especially in Europe, but Boston and New York do something to keep up art galleries, and probably directly or indirectly, as by exemption from taxation, many other cities make contributions to art culture. Expenditures for police have only recently become

enormous, and it is a disgrace to some American cities that their police costs as much as their public schools, though it is in keeping with the superstition that government must only repress and not prevent wrong-doing.* It is less than fifty years since Sir Robert Peel replaced in England the old constabulary with a regular police force, and that is why the police are called sometimes "bobbies" and sometimes "peelers."

We may say that, with some unfortunate exceptions, these increased expenditures of governments are a sign of health, but do not, fairly considered, reveal any tendency on the part of governments to absorb an undue proportion of our industrial life.

Comparisons of Expenditures and Revenues of Governments.—Comparisons of expenditures and revenues of governments are misleading unless made with care. The United States, Germany, and Switzerland are federal governments, while France, Italy, Great Britain, and most countries are single States. What the central government of France does embraces what federal and State governments together do in federations. But when even this is borne in mind many other facts require attention. What a city in one country does a province or a State may do in another. We must also ask, "What is received for what is paid out?" The mediæval custom obtains in Baltimore of compelling every one to sweep the street in front of his house, a most expensive and wasteful proceeding, yet one which does not appear in municipal expenditures. It costs twenty times what it would if done by a well-organized municipal service,

* New York city now spends more for police than for education. According to the *Real Estate Record and Builder's Guide* of that city the expenditure of New York for police in 1887 was $4,235,867, while that for education was only $3,994,088. While expenditure of the city for police increased 63 per cent, that for education increased only 17 per cent. Berlin is often called the "model city;" and it is generally said that there is no better city government. According to a recent article in the New York *Evening Post*, Berlin spends nearly four times as much for education as for police.

which would nevertheless increase our taxes. The increased taxation would be a saving. We must ask in comparisons of municipal expenditures, "Are streets well paved, well cleaned, sprinkled with water in the summer? Are ample parks provided, schools, libraries, art galleries, and the like?" We must further distinguish between expenditures and revenues from taxes because there are other sources of revenue than taxation. American city governments cost much in proportion to what they give, because they neglect these other sources of revenue. European cities instead of paying for services like gas, electric lights, etc., make them a source of revenue. It costs the tax-payers less to govern the city of Berlin and to provide its magnificent schools of all grades, to pave the streets as they are not paved in any American city, to furnish parks, and do a great many things not dreamed of with us, than it does those who live in Boston to govern their city, which is less than half the size.

Revenues of Government.—There are three permanent sources of revenue. These are, first, productive domains; second, industries; third, taxation. There is one chief temporary and limited source of revenue; namely, loans, which must be repaid out of the other three. There are also various minor sources of revenue, like gifts, escheats, or property which falls unto the State in default of heirs, "conscience money," that is, money sent without name by those who have defrauded the government, and the like. Gifts amount to more than is ordinarily supposed, although, of course, relatively they are a small matter.

Formerly gifts were frequently made for general expenditures of government. Recently a citizen of New Jersey left the United States nearly a million dollars to be used in paying the federal debt. Gifts are now more generally made for special purposes, as when Mr. Smithson left the United States government half a million dollars to be used in the foundation of the Smithsonian Institution for the advancement of science. A Maryland citizen has within a few months left one of the counties in the State, Harford, nearly a hundred

thousand dollars for the improvement of its public roads. While the writer was in Heidelberg a fine road was being made in that city from the proceeds of a private gift. These are simply illustrations. Public schools receive many gifts, but not so many and so important gifts in the United States as private foundations, but in other countries the case appears to be different. France, and particularly Paris, has received large gifts. When our governments become better, gifts will undoubtedly be often received by them.

Productive Domains yield considerable sums in Germany. It is generally thought that governments should part with agricultural land. Not a great deal of arable land is retained by governments, although there is not so strong a tendency to part with what remains as there was a generation ago. German States began to sell off their landed domains some time since, forests excepted, because it was supposed that private parties could manage them better, but later experience seems to throw doubt in that country on this assumption. Land may be kept and leased; the title to our American western domains might be kept by the United States or vested in our separate States and the use parted with for a period until we have further light on the best form of industrial organization; but no one would like to see our American States or federal government engage extensively in agriculture. Model farms, or agricultural experiment stations, may be maintained, as at present.

Industries except those of a monopolistic nature have not succeeded well as government undertakings as a rule. Model establishments may be maintained, like model farms. Some important industries, like the manufacture of fine china, took their origin in government establishments. Natural monopolies ought to yield a large part, ultimately, perhaps half in great cities, of public revenues, but ordinary manufactures should be rejected. Agriculture, like manufactures and commerce, is the proper field for private enterprises.

Public Debts.—Great national debts are something comparatively new in the world's history, their origin being so

recent as the reign of William and Mary in England. How important they are now will become apparent by this quotation from Professor Henry C. Adam's admirable work on *Public Debts:* "The civilized governments of the present day are resting under a burden of indebtedness computed at $27,000,000,000. This sum, which does not include local obligations of any sort, constitutes a mortgage of $722 upon each square mile of territory over which the burdened governments extend their jurisdiction, and shows a per capita indebtedness of $23 upon their subjects. The total amount of national obligations is equal to seven times the aggregate annual revenue of the indebted States. At the liberal estimate of $1 50 per day, the payment of accruing interest computed at five per cent. would demand the continuous labor of three millions of men. Should the people of the United States contract to pay the principal of the world's debt, their engagement would call for the appropriation of a sum equal to the total gross product of their industry for three years; or, if annual profits alone were devoted to this purpose, they would be enslaved by their contract for the greater part of a generation."

Alarm has been often expressed on account of these debts. They are undoubtedly a misfortune, and should be paid as soon as possible. Serious apprehension does not seem to be called for so far as Germany, England, and the United States are concerned. The productive property owned by Germany is more than sufficient to pay her debts, the railways alone in several of the German States paying entire interest on the debts and leaving a surplus. England is gradually making headway against the burden of debt, and the author's investigations have shown that American States and cities, as well as the federal government, are rapidly extinguishing their debts. Comparatively little is owed. Many States owe nothing; in others the debt is merely nominal, all the bonds being owned by the State. A few Southern States alone are having trouble with their debts, and these will doubtless soon emerge from their difficulties. Our cities, too, are in

this respect placing themselves on a solid basis. Americans may feel warranted in optimistic views in the main, so far as public debts are concerned.

Constitutional Limitations.—There is a tendency, springing out of fright partly premature, to place undue constitutional restrictions upon the power to create debts. This tendency ought to be checked. It places States and cities at a disadvantage as compared with private corporations. It also tends to throw into the hands of private corporations enterprises which cannot be paid for out of one year's revenues and yet properly belong to the public. Gas-works are an illustration. When great improvements, to last for generations, are to be effected it is proper that part of the burden should be borne by tax-payers in future years, and this can only be effected by loans. At the present time excessive limitations, unworthy of a free people, make it impossible for some States to improve their own property. That is the case with Maryland, which owns a canal for the improvement of which her constitution will let her borrow no money! Provision should be made for the extinction of all debts within thirty-five years, or say forty as a maximum, that the present may not unduly burden the future, and especial precaution should be taken against hasty action. In Baltimore no loans can be made until the people have by vote approved of them. One of the most distinguished of the mayors of American cities has expressed the fear that even with universal suffrage this would tend to ultra-conservatism and prevent improvements really needed. The writer hardly thinks this fear warranted by experience.

Land Nationalization and Municipalization.—Mr. Henry George has come forward with a scheme for the abolition of taxation as ordinarily understood. His scheme is stated thus in his own words printed in his organ, *The Standard:*

"*The Standard* advocates the abolition of all taxes upon industry and the products of industry, and the taking, by taxation upon land values, irrespective of improvements, of

the annual rental value of all those various forms of natural opportunities embraced under the general term, Land.

"We hold that to tax labor or its products is to discourage industry. We hold that to tax land values to their full amount will render it impossible for any man to exact from others a price for the privilege of using those bounties of nature in which all living men have an equal right of use; that it will compel every individual controlling natural opportunities to utilize them by employment of labor or abandon them to others; that it will thus provide opportunities of work for all men, and secure to each the full reward of his labor; and that as a result involuntary poverty will be abolished, and the greed, intemperance, and vice that spring from poverty and the dread of poverty will be swept away."

He proposes that the State shall take the pure economic rent of land, and thinks that this will abolish poverty. It might prevent people who do not care to use the land from keeping land away from those who want to use it, but how it would bring about all the predicted blessings it is difficult for most people to understand. With the best will and with every desire to be unprejudiced the writer has never yet seen how pure economic rent of agricultural land can be separated from the annual value of the improvements on and in the land. Apart from all this, the confiscation of rent, or even if it be called by so gentle a name as appropriation of rent, by the public without compensation to present owners will never, in the writer's opinion, appeal to the conscience of the American public as a just thing. Abstract reasoning based on assumed natural rights will not convince a modern nation. It is but another illustration of the danger of reasoning based on natural rights.

It is easy in cities to separate pure economic rent from rent for improvements, and it is done a thousand times a day. The principal evils of private land-holding are seen in cities, and the objections to land nationalization do not wholly apply to land municipalization. Many will favor the latter who reject the former, but even in this matter one

should proceed cautiously. No confiscation or thought of confiscation should for a moment be tolerated, but if great and expensive changes are desired the burden should be diffused by means of inheritance and other taxes throughout the community equitably. Suggestions for some cautious steps in land municipalization are offered in the author's work, *Taxation in American States and Cities*, in chapter iv of Part III.

CHAPTER II.

TAXATION.

Private Property.—As the State—and this word is used in its generic sense, including our federal government as well as separate commonwealths—determines what shall be private property, it determines the conditions of its existence, and it will be found, on examination, that nowhere has there ever existed any such thing as absolute private property. The rights of private individuals have always been of a more or less limited nature, and among the rights reserved by the people in their organic capacity will be found in every civilized State the right to take a portion of the wealth produced for such purposes as the law-making power may deem fit. The aim, of course, should be the promotion of the public welfare.

It has been said that there are no limitations to the right of the State to take private property. Canon Fremantle says that as the State for its purposes can require us to give up our lives, it also can ask us to surrender our private property. John Stuart Mill holds that public utility is the only basis on which private property can rest, and he argues against socialism because he believes that the public welfare is best served by private property in the greater part of the instruments of production.

Constitutions in the United States are the basis of the institution of private property, and thus largely control taxation, but constitutions themselves of course change from time to time and are but one kind of law; namely, the fundamental law to which other laws must conform.

We see, then, that the right to tax is a part of the right of private property. Both have grown up together, and both

are defended alike by constituted authorities. It may be said that to attack the one right is to attempt to invade the other. Curious as it may seem, Henry George, who denies the right of private property in land, disputes also the right of government to lay taxes, as ordinarily understood, and calls taxation robbery.

Our conception of taxation removes a multitude of confused notions. Lawyers often say that taxation is a payment for protection, yet their law books tell them that those laws which apply to payments and debts arising out of failure to make payments do not at all apply to taxes. It is sometimes attempted to defend public schools as adding to the value of private property, as if that were supreme, whereas, it is solely a question of the welfare of the land, and, of course, property is but a means to an end, and the end is man. The elements of private contracts are not present in taxation.

Government a Partner in Production.—Taxes have been defended on another ground. It is said that government participates in all production, and is as much a factor in the creation of wealth as land, labor, or capital. Truly this is so, for without government we should have anarchy and a return to barbarism, which would destroy all production. It is then held that, as government is a factor in production, it is entitled to a share of the wealth produced. This is a sound position, but peculiar principles regulate the share of government. The portions which go to land, to labor, and to capital are determined chiefly by voluntary agreement, whereas government by virtue of its own sovereignty determines what share it will take. It may be asked, then, What guarantee have we that government will not take an undue share of the annual income of the country? We have the same guarantee that we have that government will not abuse its other powers: the moral sense of those who govern; also their self-interest. Government in a republic is after all only the people in their organic capacity, and the question is this: Will the people injure themselves, or suffer themselves to be

injured? Self-government rests upon the hypothesis that they will not.

As it is essential that any reform of taxation should be based on a clear conception of taxation, it is further necessary, if we would act well, that we should proceed with a correct understanding of some general propositions applicable to taxation.

It is first of all to be remembered that taxation in itself is not an evil; it is a blessing. This sounds paradoxical; does it not? Nevertheless, it is true, as it will be found on an examination of the historical development of constitutional governments that taxation was the instrumentality whereby the common people obtained their liberties. Monarchs needed revenues, and were obliged to ask for them; as a matter of fact, they could not secure sufficient and regular revenues otherwise. These revenues have been granted conditionally. "Yes," the people said to their sovereigns, "we will grant you the revenues if you will grant us our demands." Thus step by step popular rights have been secured. The total abolition of taxation would undoubtedly be one of the most effective and most dangerous blows to popular government which it could well receive.

Taxation Increases with Freedom.—Very generally increased freedom is accompanied by increased taxation. Compare despotic Russia's State expenditure for schools, thirteen cents per capita, with that of the enlightened and free republic, the State or canton of Zurich, in Switzerland, one dollar and twenty-five cents per capita. It may be, however, more correct to say that governmental expenditures are large in all civilized nations; for expenditures are one thing and taxes are another, because there are other sources of revenue than taxation.

Small expenditures mean small results, and no money we pay begins to yield such returns as money paid in taxation, provided always that it is prudently expended by a good government. Let a small house-owner in a city like Baltimore, who pays, say, fifty dollars a year in taxes, reflect on what he

receives in return. He receives, dollar for dollar, five times as much as for any other expenditure. Streets, libraries, free schools, protection to property and person, including health department, pleasure-grounds royal in their magnificence—all these are placed at his service. What private corporation ever gave one fifth as much for the same money? When we compare various countries at the present time, we find that expenditures of barbarous and backward countries are small. In some, doubtless, there is no real taxation, for the tribute of the East is different in its nature from taxation, it is more like ransom; something exacted of a subjugated people, not self-imposed taxes. So if we compare the past with the present we shall find large increase in expenditures with advance of civilization.

Taxation Increases Production.—Another advantage of taxation is mentioned by the Scotch political economist McCulloch. This advantage of taxes will be described in his own words: They stimulate individuals to endeavor, by increased industry and economy, to repair the breach taxation has made in their fortunes, and it not infrequently happens that their efforts do more than this, and that, consequently, the national wealth is increased through increase of taxation.

"But we must be on our guard against an abuse of this doctrine. To render an increase of taxation productive of greater exertions, economy, and invention, it should be slowly and gradually brought about, and it should never be carried to such a height as to incapacitate individuals from making the sacrifices it imposes by such an increase of industry and economy as it may be in their power to make, without requiring any very violent change in their habits. . . . Such an excessive weight of taxation as it was deemed impossible to meet would not stimulate but destroy exertion. Instead of producing new efforts of ingenuity and economy, it would produce only despair."

Let us consider another paradox: *no country was ever yet ruined by large expenditures of money by the public and for*

the public. Countries have been ruined by evils connected with taxation. Robbery and extravagance have frequently accompanied both expenditures of government and taxation, and these have ruined great nations. Rome may be cited as an instance. The case of France before the Revolution is also instructive. Books are full of the evils of burdensome taxes in pre-revolutionary France, but the truth is that the total amount raised by taxation in France was ridiculously small as compared with nineteenth century taxation. The trouble was that the burden was unjustly distributed, and the wealthiest classes shifted the taxes on the weak and defenseless.* France has since then prospered under heavier taxation. The taxes over which our forefathers in this country and in England fought, bled, and died were not large, and the taxes in themselves were not the real grievance. It was evils connected with taxation against which they successfully struggled.

Public Parsimony.—Let us next turn our attention to some of the evil results of undue economy, or more properly speaking, niggardliness.

The Chautauquan in its issue for October, 1888, alluded to the case of Duluth, Minnesota, and Denver, Colorado. Typhoid fever broke out in both cities last fall on account of failure to spend sufficient money for public health; and a few years ago, Memphis, Tennessee, lost two thirds of her population and one fourth of her commerce on account of a niggardly public policy. "And still," says the editor of *The Chautauquan*, "city councils hesitate about incurring the expense of sewers and water-works."

A scandal has arisen in Brooklyn about overcrowding in an insane asylum, and short-sighted parsimony in cities is continually leading to waste and destruction. Our great cities are now failing to provide sufficient school accommodations for children of school age, and large numbers are growing up to take their place among the ignorant and vicious

* Vauban, one of the greatest of the French economic writers of the eighteenth century, brings this out clearly in his work, *Dime Royale.*

poor. We can see in our national capital many results of the idea that that is the best administration which spends least. It is on that account that Congress refuses to pay the superintendent of schools in Washington a salary in proportion to the importance of the office. It is on this account that Congress has never yet made a decent appropriation for the library of the Bureau of Education, which is doing so valuable a work. It is on this account that heads of bureaus will not ask for money which they know they could use for the public advantage. It is on this account that clerks have actually found it difficult to get blotting paper and pencils for their offices. It is on this account that Congress reduced the appropriation for our national library building from $10,000,000 to $4,000,000—a shame and humiliation to us. How could money be better spent than in erecting a suitable building for the greatest library in the country? Ought it not to be a grand building to symbolize the value of intellectual treasures and to impress upon the senses the nature of true riches? Now the building must be stripped of all ornamentation. One Congressman said truly, "Ten millions is, after all, only a per capita expenditure of twenty cents." But another Congressman replied, "Twenty cents means three loaves of bread." Perhaps this was a bid for labor votes, but could demagogism go further? The best part of the press laments this unseemly parsimony, but it should remember that it is a legitimate outcome of the notion that that is the best administration which spends least.

We must guard against parsimony as well as extravagance, and in some respects the former is more dangerous, because it more readily conceals itself beneath the mask of patriotism. We praise a private individual who spends bountifully, when his expenditures are justified by results. The case of a city is similar. We must be very careful, very prudent. What is needed is a more careful examination of particulars. We praise and we blame too much "in a lump." To cities and countries, as well as to individuals, does this proverb of Solomon apply: "There is that scattereth and yet increas-

eth; and there is that withholdeth more than is meet, but it tendeth to poverty." This is emphasized on account of the vast amount of nonsense talked about the large expenditures of States and cities. More or less is wasted, more or less stolen, but, after all, comparatively little; and we observe that governmental expenditures have increased most rapidly where there is no suspicion, even, of corruption. Those are looking for a Utopia who seek to reduce very greatly expenditures of modern States and cities. We can make no headway against a strong current of national life like that which brings about increased expenditures of governments. We must rather put ourselves in it and try to guide and direct it.

We have three main facts to bear in mind:

1. We must set our faces against all extravagance, jobbery, and robbery.

2. We must avoid the "too much" and the "too little." Prudent liberality will yield best results. We must look ahead. To conserve future interests is one of the special functions of government.

3. It is a hard thing for some to live under present burdens.

The remedies for the evils connected with taxation are in general of two kinds:

1. Better adjustment of the burdens of taxation.

2. Better utilization of public resources.

1. Better Adjustment of the Burdens of Taxation.—Our national taxes fall chiefly on commodities, and taxes of this kind are called indirect. They are not proportioned to the value either of the property or of the income of citizens, and are very generally regarded as unjust to the poorer classes unless counterbalanced by other taxes which bear more heavily on the rich than on the poor and well-to-do.

Indirect federal taxes are of two kinds: customs duties, or taxes on imported commodities, and internal revenue, or excise taxes, as they are also technically called, or taxes on articles produced in the United States. Internal revenue taxes are now confined to a few products, like oleomargarine, tobacco, and intoxicating beverages, the two latter yielding

nearly all of the internal revenues. Among thinkers there seems to be a general sentiment in favor of the retention of taxes on articles produced in the country which are now taxed by the federal government. The question of free trade and protection is not involved. When the national government depends exclusively upon revenues from taxes on imported articles the revenues are too uncertain and too irregular, and yield least when most is needed. The State and city revenues are largely raised by taxes on property. Such taxes, and taxes on incomes, are called direct taxes.

Property in States and cities is generally valued and all taxed at a uniform rate. The difficulty is that real estate, that is, lands and houses, is visible and can readily be found by tax assessors, while a great deal of property—say one half of all property—is in the form of stocks, bonds, instruments of credit, and the like, and often cannot be found at all. The result is that real estate generally pays an undue share of taxes. Competent business men in Boston, including the president of the Boston Merchants' Association, Mr. Jonathan A. Lane, have estimated that in Boston personal property is four times as valuable as real estate, although it is assessed for only one fourth as much. The problem is a better adjustment of the burdens of State and local taxes, so as to make those pay their share who own invisible or easily concealed property; also so as to make that considerable class contribute something to the support of government who have little or no property, but enjoy, nevertheless, large incomes, sometimes larger than the accumulations of the life-time of the ordinary man.

Income Tax.—An income tax seems the most promising remedy, but against this there is in many quarters an unreasonable prejudice. All efforts, however, to find personal property have so far proved unavailing, and there is no prospect that they will succeed better in the future. Space is too limited to treat at length of this subject. It may be said that while general personal property taxes become worse and worse the longer they exist, wherever a rational kind of income tax has been laid, as in Switzerland, Prussia, and En-

gland, the longer it lasts the better it works, and the more general the popular approval. It is the only way in which a large and influential and even rich class can be made to bear its fair share of taxes. Where this class, including professional men, is exempt from taxation its members are apt to become careless and indifferent about government — poor citizens. Income taxes are in harmony with the democratic sentiment of popular government.

Inheritances and Bequests can be made to yield more than at present without any infringement of the rights of individual property. Collateral inheritances are taxed by New York, Pennsylvania, and Maryland, but why should collateral inheritance apart from a will be allowed at all except among near relatives? Why should third cousins inherit from one another at all unless money is left by will? Are third cousins nearer to one than the town or city in which one has lived, and where one has been able to acquire a fortune? The extent to which intestate collateral inheritance is carried is a survival of the sentiment of the time when people lived in clans, and is ridiculous in our day. Right and duty should be co-ordinated. Am I compelled by law to support an uncle who is unable by incapacity to earn a livelihood? Then I should inherit from him; otherwise not, unless he leaves me property by will. The property should go to the State in the absence of near relatives when no will is made. The enlightened English jurist, Jeremy Bentham, wished to restrict inheritance and extend escheat, and thus abolish taxation altogether, but this is going too far.

Several terms must be explained which readers will meet with in their studies in finance. Proportional taxes are taxes in exact proportion to the property or income taxed. The rate is constant: one per cent., two per cent., or three per cent., as the case may be, throughout. Progressive taxes are taxes with an increasing percentage with increasing property or income: as one per cent. on the first thousand dollars taxed, two per cent. on the second thousand, and the like. Progressive taxation is often called graduated taxa-

tion. A tax is regressive when the rate per cent. increases as the property taxed decreases. If a man with five thousand dollars is taxed two per cent. and one with three thousand is taxed three per cent. this is regressive taxation. Business-license taxes in Maryland, and generally in Southern States, are regressive. Indirect taxes are said to be, in their effect on the citizens, regressive. When we have one uniform rate of taxation but unequal assessment, the wealthy being assessed relatively less than the well-to-do and the poor, we also have regressive taxation.

A tax is digressive if a certain sum is exempt from taxation, and all above that sum is taxed at one uniform rate.

If all incomes of six hundred dollars are exempt from taxation and all incomes above that sum and only on that excess were taxed, say one per cent., it would be digressive taxation. Income taxes are often digressive. Digressive taxes are also called progressional.

2. Better Utilization of Public Resources.—By this is meant that public property and its use should be paid for. Cities and States should stop making presents to corporations. If street-car companies use the streets they should pay for the privilege. This is sometimes done, but too often the public is robbed. The Baltimore street-car companies, as has already been stated, pay to the city nine dollars for every hundred they collect, but this is not enough. When five-cent fares are charged, street-car companies in great cities can sometimes afford to pay as high as forty or fifty dollars to the city for every hundred they collect. Similar principles should be applied to other corporations using streets, like gas, electric lighting, telephone companies. It is, however, best for the city to manufacture its own gas and electric lights and to provide itself with water. This part of our subject has already been sufficiently discussed for present purposes.

PART VII.

THE EVOLUTION OF ECONOMIC SCIENCE.

CHAPTER I.

INTRODUCTORY.

The explanation already given of economic life would in itself lead us naturally to look for a corresponding evolution of economic science, and this has indeed taken place. Every economic system, like every philosophical system, is to a greater or less extent a mirror in which is reflected the aims, the character, the time-spirit—in short, the entire life, national, mental, spiritual—of the period when it arose and of any period in which it received support, and of the place where it arose and of any other place where it gained support. A man can no more escape entirely the influence of his environments than he can lift himself over a fence by tugging at his boot-straps. One writer will reflect one part of the life of the people, a second another side of this life, and so on indefinitely. Thus we have a picture of the conflicting interests of the age. Dissatisfaction with an age and attempts at reform are likewise products of time and place, and perhaps more clearly than any thing else reveal its true character. This must not be regarded as an expression of political fatalism, for the will of man is always a main factor to be considered.

These considerations show us the nature of the evolution of economic science and reveal to us the utility of the study of this evolution in the history of political economy. The present is a product of the past.

The history of political economy points out past errors and enables us to avoid a repetition of them. It trains us in habits of economic reasoning. Political economy can never give ready-made answers to all the perplexing questions of practical life, and that for this reason: the present is never

quite like the past. Some new element is always involved. Nevertheless, old mistakes are often still mistakes when tried again, and these can frequently be avoided by a knowledge of what has been.

A study of the evolution of economic life and its proper science may reveal to us the course of progress. It may—indeed it does—reveal to us powerful on-moving currents which it were folly to attempt to turn back, but which, nevertheless, can be guided and directed within certain bounds.

The Physiocrats.—Political economy, as a distinct science, began when there was first an attempt to treat systematically the general facts pertaining to the entire economic life of society, separating them from other facts as one branch of knowledge. This was first done in the latter half of the last century by writers of a French school whom we call Physiocrats. Political economy is, then, little more than one hundred years old.

Political economy did not, however, come at once suddenly into being. Economic ideas are found in all the greatest writers of the past on politics, philosophy, and religion, and these gradually grew and developed until they were separated out of a larger whole and constructed into a separate science.

The question is often asked, Why did not economic science, as a separate science, arise earlier in the world's history? An examination of this history gives the answer. We may take the Greeks. Why did the Greeks not have a complete political economy? Another question will help us to answer why. What have always been the two most fruitful sources of economic inquiry? They have been financial operations of governments and questions concerning labor. Now, great financial operations of governments are modern. The revenues of Athens at the beginning of the Peloponnesian War, in the fifth century before the Christian era, amounted to something like a million of dollars; a mere bagatelle in a modern national budget, which runs into the hundreds of millions. It has already been mentioned that national debts are scarcely two hundred years old. Taxes like those we know

are also new. For over a century Rome was untaxed, and Cicero in one of his works speaks of taxation almost as we might of a reign of anarchy. But what about labor? Labor was despised. Aristotle thought that all industrial classes, employers and employés alike, were unworthy of citizenship. Yet this is not all; political economy deals with industrial relations, and these relations were less numerous and less important in ancient times. This subject has already been treated.

When we pass on from Rome to the Middle Ages, after the breakdown of the Roman Empire, we find an unsettled condition of society, which would naturally retard the development of political economy. As other causes for the failure of the Middle Ages to develop a political economy may be mentioned the too exclusive devotion of scholars to religion and metaphysics, the absorption with ancient authorities, and the dread of originality. The great men of the Middle Ages had their own work, and this was the reconstruction of a civilization on the ruins of the old world. Church and empire were the agencies for this reconstruction, and these absorbed the talent of the times.

At the close of the fifteenth century a new world in the Occident was discovered, and this gave a new impulse to thought, and within two centuries forced new and strange economic phenomena upon the attention of Europeans. This new world has continued to force new phenomena of an economic nature upon the old world even up to the present year, and has ever been a fruitful cause of economic study. The new course of trade to the East, which followed upon the discovery of the route to India around the Cape of Good Hope by Vasco da Gama in 1498, must be mentioned as still another cause of economic inquiry.

The great Protestant Reformation in the sixteenth century effected radical changes in economic, political, and intellectual life, and gave rise to speculations which finally terminated in what is technically known in the history of political economy as the mercantile system.

CHAPTER II.

ECONOMIC IDEAS IN THE ANCIENT WORLD AND THE MIDDLE AGES.

It is not proposed to present a history of political economy, which would require a far larger work than the present, but simply to indicate in the briefest possible way the main currents of economic thought.

The Orient.—Little attention is usually given by economists to the East, partly because it is probably insufficiently appreciated, partly because its general life has been so imperfectly investigated and materials for knowledge are still so imperfect and difficult of access; finally, partly because our young science has found more fruitful fields still unworked. The ancient Eastern nations were theocracies, and under the guidance of priests who prescribed duties and often methods of economic action, frequently going into details. The ethics of economics were somewhat cultivated, and such as they were they were reduced to practice. They entered into every-day life as our higher ethical principles unfortunately do not. We encounter warnings against the sins of wrath, pride, and arrogance, and exhortations to a kindly treatment of inferiors. Thrift and temperance were encouraged, just weights and measures prescribed. A simple division of labor between economic classes took place and these classes sometimes became estates. Indeed, Sir Henry Maine says that in India to-day, with the exception of the two highest castes, "caste is merely a name for a trade or occupation."* Conservatism was held to be a sacred duty and radical changes were considered rebellions against the divine law. Progress was thus rendered im-

* *Village Communities*, American edition, p. 57.

possible. National exclusiveness was a universal policy. Trades, commerce, and manufactures were held in slight esteem, but agriculture met with more favor. The ethico-economic ideas of the Orient deserve especial attention. The economic ideas of one Oriental people, the Jews, have been tolerably well preserved in the Bible. These should be studied more carefully than they have been by economists. Biblical views about usury, debt, and land tenure are especially important.

The Greeks.—The three writers among the Greeks most interesting to the economist are Plato, Aristotle, and Xenophon, but by far the most important is Aristotle.

Plato describes a Utopia in his *Republic*. His aim was to picture an ideal society in which the ills of society were to be corrected by a communistic State, and he included a communism even of wives and children, going further than modern communists. The communism of Plato admitted, strange as it may seem, slavery, on which his social superstructure indeed rested as a base. The *Laws* of Plato is a more practical work. It aims to present not the best possible state, but only the second best, and deals to a greater extent with existing institutions.

Aristotle's principal work for us is the *Politics*, and it is indeed one of the most remarkable books in the world's history. Its influence is strongly felt to-day, for it was carefully studied by theologians of the Middle Ages, and through them entered into the thought and life of their time; and the thought and life of their time can be seen by the careful student to have entered in a thousand ways into the institutions of the nineteenth century. Gladstone, the English statesman, says the *Politics* of Aristotle is one of the three books from which he has learned most.

Aristotle combated the communism of Plato, and advanced arguments in favor of private property which we can hear any day uttered as new and original truth. But Aristotle was no anarchist. He said man by nature is a political being, more literally a State being, and he accorded

to the State large functions. Aristotle subordinated strictly the industrial life to the higher life-spheres of society, and in some respects the most advanced political economy is a return to Aristotle.

Aristotle, like the ancients generally, taught the sinfulness of interest. Money, he said, was barren. One piece of coin cannot beget another piece of coin; hence interest should not be allowed. This is only a part of his argument, but the space is too brief for further presentation. It should, however, be remembered that many of the arguments in favor of interest now heard would not hold for Aristotle's age.

Among the works of Xenophon there may be mentioned as of special importance *Hiero*, the *Cyropædia*, and the *Revenues of Athens*. The first two are romances, describing an ideal State, and the third deals with the finances of Athens.

The Romans.—There is less to be said about the Romans than about the Greeks in a history of the evolution of economics. Their economic life was remarkable and instructive, exhibiting the disastrous consequences of slave labor and of an excessive concentration of wealth, particularly of landed property. Pliny said the great estates, the *latifundia*, caused the downfall of Rome. The moral degeneracy of the empire is fruitful of economic consequences which deserve serious attention, and among these have already been mentioned wanton luxury and wide-spread poverty. But while the economic institutions of the Romans and the manifestations of their character in their economic life will repay investigation they were not remarkable for independent thoughts. Their economic ideas, like their philosophical doctrines, were borrowed from the Greeks, and generally in the history of thought they occupy an inferior position.

Cicero, Seneca, and the elder Pliny are mentioned among the philosophers whose economic ideas are noteworthy, and Cato, Varro, and Columella among the writers on agriculture.

The jurists are, however, the most important of all. Whatever may be its imperfections, the Roman law, the *corpus juris civilis*, is the most remarkable legal system the world has ever seen, and for training in careful and accurate statement is unsurpassed. Probably as a training for economic studies Roman law is among the most valuable branches of learning. It gives us also invaluable information about the economic institutions and measures of Rome.

Christianity.—The economic ideas of Christianity come next in point of time, but not next in the order of evolution. Christianity seems to be interposed here out of the logical order, and some will regard this as a proof of its divine origin. Suddenly we pass from weak and imperfect ideas, many of which are now quite antiquated, to a sublime ideal of economic life which we are only beginning to try to realize. The most modern movement in economics, as it is in part a return to Aristotle, may also be regarded as in part a return to the teaching of Christ, although yet far from the ideal which he placed before men. Christianity asserts the honorableness of toil, which is the exact opposite of what the Greeks and other ancients had taught. Christ and his apostles were working-men whom Aristotle would have deemed unworthy of citizenship. This had, both directly and indirectly, tremendous economic consequences. It has, among other things, been a constant force pushing in the direction of the emancipation of labor. The doctrine of brotherhood is a powerful economic factor. Let us bear each other's burdens. Let each one bear his own burden also. Let us be sure not to be a burden to others, and at the same time help others. This tends to the conservation of human energy and to the development of man's physical and other powers.

The duty and the right of general enlightenment spring from Christianity. If humanity is so precious as Christianity teaches, all the faculties of each person should be developed to their utmost. Education, with its undoubted economic value, follows necessarily.

Benevolence, which Professor Sidgwick in his *History of Ethics* says is the distinctive teaching which Christianity added to ethics, tends to the maintenance and increase of efficiency of men and the general productive power of men.

The prohibition of luxury implied in the command to love our neighbor as ourselves tends to the preservation of nations. Self-sacrifice and self-control in this as in other directions have high economic value.

The Middle Ages.—Little can be added in our bird's-eye view to what has already been said about economic speculation in this period. The religious and moral aspects of economic questions were considered by the theologians, who absorbed the learning of the time, and the canonical law, *corpus juris canonici*, contains what we may regard as the Church doctrine of practical law in the Middle Ages. The most remarkable writer, from an economic stand-point, as well as from other stand-points, who falls within this period was undoubtedly Thomas Aquinas, of the thirteenth century, the study of whose writings has recently been urged by the pope. He treated chiefly two economic topics: just price, *justum pretium*, and interest. The conception of just price still lingers, and the doctrine that all interest is sinful was in the sixteenth century modified and became the doctrine that excessive interest is sinful, and usury in later times has meant simply excessive interest, and not any interest at all, as formerly. The teachings of Aquinas in modified form still exist as a force in our thoughts and in our laws. Aquinas wrote commentaries on Aristotle, and what he taught was Aristotelianism modified by Christianity.

Professor Roscher says that the schoolmen of the Middle Ages asked in their economic inquiries, What is ethically allowable? that in the development of political economy we pass on to the fiscal jurists, who asked, What is legally allowable? that the economic writers and teachers of the early modern period, that which we are about to consider, the mercantilists and cameralists, as the teachers of economic

ideas to German office-holders were called, asked, What is useful? and that, finally, in most modern times economists have arrived at the insight that real and permanent utility can be attained only through both the legally allowable and the morally allowable. In other words, law, morality, and utility must harmonize.*

* Roscher's *Finanzwissenschaft*, sect. 12 of second edition.

CHAPTER III.

ECONOMIC IDEAS IN MODERN TIMES.

We now pass on to economic systems, which have been treated in the present work more or less fully. We can only gather together the threads and try to form a brief continuous narrative.

The Mercantilists.—The mercantile system, also called Colbertism, restrictive system, and commercial system, obtained from the early part of the sixteenth century until late in the eighteenth century, and its influence is still felt. Mercantilism is not, strictly speaking, the product of a school of political economists, but rather the name given to that economic policy of statesmen and to those detached economic views of writers which prevailed during this period. Most prominent among the statesmen who were mercantilists may be named Colbert, of France, Frederick the Great, of Prussia, and Cromwell, of England. Serra, an Italian, early in the seventeenth century presented a moderate and systematic statement of their views in a work entitled, *A Brief Treatise on Causes which make Gold and Silver Abound where there are no Mines.* Thomas Mun, in England, a generation later, wrote a valuable treatise from the stand-point of the mercantilists, called, *England's Treasure by Foreign Trade, or the Balance of our Trade the Rule of our Treasure,* while Sir James Steuart's *Inquiries into the Principles of Political Economy*, published in 1767, may be regarded as closing the development of the theory of mercantilism. The one idea common to all mercantilists was this: a nation ought to strive to export a quantity of goods of greater value than it imports, in order that the difference may be imported in gold and silver and the home supply of the precious metals in-

creased. Every thing else was subordinated to this policy. A favorable balance of trade was the aim, and we call their policy "the balance of trade theory." Tariffs were laid with this in view and protectionism was encouraged; yet it was something different from modern protectionism. It was the avowed aim of the mercantilists to make both agricultural products and labor cheap, in order that manufactured articles might be cheap and a large sale of them abroad effected. The exportation of raw material was often entirely prohibited.

The Physiocrats.—The physiocrats were the first to present a rounded-out system of economic doctrine, and may thus be called the founders of our science. Quesnay, a physician, Gournay, a merchant, and Turgot, the statesman, are their three principal authors. The physiocrats taught the doctrine of natural laws already expounded, and as a consequence loudly proclaimed the maxim *laissez faire*. They taught furthermore that agriculture was the only pursuit which added to the wealth of the country, and that additions to wealth must come from pure economic rent. They advocated in consequence the doctrine that all other taxes should be abolished and all taxes levied on rent. All taxes must, they thought, in the end come out of rent anyway, and it is better that the landlord should pay them at once instead of waiting until they have passed through five or six hands and various profits have added to their amount. The physiocrats were ardent champions of free trade.

Adam Smith.—Adam Smith, of Scotland, published in 1776 the most influential economic treatise ever written. It was called *The Wealth of Nations*. Adam Smith is usually, though perhaps without justice to the physiocrats, called the father of political economy. His writings, critically examined, are found to be very similar to those of the physiocrats, but further developed and modified by his Scotch training and habit of mind. We find in Adam Smith free trade but less extremely stated; *laissez faire*, but with more careful limitation; and the doctrine of natural laws and harmony of

the working of the selfish interests, yet stated more guardedly. Adam Smith, however, regards all industrial pursuits which are concerned with material things as truly productive, and does not propose to limit all taxes to rent, although when one goes through with the list of taxes which he rejects it is found that not many things save rent are left to be taxed.

Malthus.—Malthus published at the close of the last century his celebrated work, *The Theory of Population*, in which he advocated the Malthusian theory already explained. This was his main contribution to the evolution of economic science.

Ricardo.—Ricardo's principal work is called *Principles of Political Economy and Taxation*. It was published in 1817, and in it Ricardo elaborates, although he did not originate, the usually received doctrine of rent, which is the one explained in this book, and called the Ricardian doctrine of rent. Rent, he said, is due to the niggardliness and not to the bounty of nature, and otherwise his doctrines had a pessimistic tinge, as when he teaches the natural diversity of interest between wage-receivers and profit-makers, and the antagonism between the interests of land-owners and all other classes of society. Personally he was a kind man, and undoubtedly sincerely devoted to the advancement of humanity, although he is considered so hard-hearted as an economist. Ricardo is remarkable for his extreme development of the abstract deductive method, and it is noteworthy that this development is not in the writings of a professional scholar but in the work of one of the most successful bankers and brokers of his day. Socialists claim that developing still further, or to their logical outcome, the teachings of Ricardo they arrive at socialism, and Ricardo ranks high among scientific socialists. Ricardo illustrates, in the author's opinion, the dangers of the deductive method.

John Stuart Mill.—John Stuart Mill, who lived from 1806 to 1873, closed one period in the development of economic science and began another in England. He started as

a thorough-going follower of Ricardo, but added so much to the Ricardian doctrines that his treatise became largely new. The old and new do not harmonize, however, and the result is a work, one of the most valuable of modern times, and yet full of inconsistencies. He did the best that could be done with the old deductive basis on which he reared his superstructure, and he showed the needs of new methods.

Roscher, Knies, and Hildebrand.—These three young Germans came forward in 1850 with a new method, which they called the historical, and which has elsewhere been discussed. These writers and their successors went back of the old premises, self-interest, private property, demand and supply, and analyzed and explained them. They traced historical development, and Knies challenged absolutism of theory and substituted the doctrine of relativism. Absolutism of theory took two forms—perpetualism, or the teaching that a certain policy is good for all times; and cosmopolitanism, the teaching that a policy is good for all countries. Knies held that policies are only relatively good and bad; that policies must vary with time and place. The Germans thus took a new attitude with respect to free trade and protection, holding that neither was absolutely good nor absolutely bad, but that the correct policy of a country cannot be told without an acquaintance with the particular circumstances of the country.

While the doctrine of the Germans is broad and liberal it is at the same time conservative, for it teaches that improved conditions must be a growth, and must take their root in the past. Socialism comes rather from the abstract English political economy than from the German political economy. As English socialists themselves claim, socialism went from England to Germany and has now returned again to England.

We have now the principal elements in the evolution of economic science: the early French, the later English, and the still later German contribution. Other contributions have been less important.

The present outlook for political economy is most hopeful.

The activity is greatest in Germany, where Roscher, Knies, and Hildebrand have had many worthy successors, of whom Professor Wagner, of Berlin, is the greatest. We may also mention these cultivated scholars: Professors Cohn, Conrad, Sax, Lexis, Rümelin, Schönberg, Nasse, Schäffle, Baron von Reitzenstein, Professor von Scheel, and Dr. Eduard Engel, long at the head of the Prussian Statistical Bureau.

The historical view has sometimes tended to fatalism. The relative justification of what exists has at times become almost an absolute justification, and one might think that whatever has been was at the time the best, and that mistakes have not been made. There has been a reaction against such extremes. There are different tendencies among German economists, and, as already stated, the term historical school applies to them only when taken in a very broad sense.

German influence has extended every-where and has stimulated the Italians, who are now active in economics and doing some good wook. Among recent Italian economists may be mentioned Professors Cusumano, Lampertico, Luzzati, and Cossa.

England is doing some good work. Professor T. E. Cliffe Leslie, author of a volume of *Essays in Political and Moral Philosophy*, introduced German ideas ten or fifteen years ago, and they have proved to be good yeast in old England, full as ever of vigor and life. Arnold Toynbee continued this influence at Oxford, and his work, *Industrial Revolution*, is a valuable contribution to economic thought. Toynbee died a few years since, scarcely thirty years of age. But it is plain that many young Englishmen have been touched by him, and they may carry forward his scientific work. Other English economists might be named who take a middle position between the historical and deductive schools, like Professors Sidgwick and Marshall, of Cambridge, and the late Professor Jevons, of University College, London.

France has done almost nothing for the evolution of economic science since the outbreak of the French Revolution of 1789. Political economy has in France degen-

erated into a mere tool of the powerful classes. Nothing is so calculated to fill one with despair for France as French political economy. Rabid socialism confronts cold-blooded, selfish political economy, and where is a common standing-ground? There is so little economic liberalism in no other modern nation. Happily, there are some indications of progress just at present, and curiously enough, in view of Voltaire's dictum, "Lawyers are conservators of ancient abuses," this refreshing breath comes from the law school professors. Professor Charles Gide, of the Faculty of Law of Montpelier, and prominent in good works, is the head of the movement. This new movement is one of the hopeful signs for France. It is connected through Professor Gide with organized efforts of the Protestant clergy to improve the condition of the wage-earners and to bring about a reconciliation of social classes. Professor Gide is the author of an economic treatise which is now in its second edition.

Belgium is in a healthier condition than France, and two living Belgian economists have made important contributions to economic science. They are Professor E. de Laveleye and Charles Périn. Professor Périn is the author of many works, and treats present political economy from the stand-point of the Roman Catholic.

Next to Germany, the greatest activity in economics is now found in the United States, and there is every reason to expect valuable contributions to economic knowledge from Americans in the near future. Some such contributions have already been made. Harvard University, Columbia College, Cornell University, the University of Michigan, Johns Hopkins University, and the University of Pennsylvania all have schools of political science or are specially active in political economy. Chautauqua University is also promoting an interest in economics in its way. It provides a great public for an elementary treatise like the present, and it carries on work in political and social sciences in its summer school and in its correspondence school, both a part of the Chau-

tauqua College of Liberal Arts. Most of the students in the College of Liberal Arts have been college graduates, but it is hoped hereafter to draw nearer together the more popular and the more advanced parts of the Chautauqua work. Chautauqua University Extension will aid in this, and in this way as well as otherwise help to awaken an interest in economics.

Harvard University publishes a *Quarterly Journal of Economics*, and Columbia College a *Political Science Quarterly*, both scientific periodicals of a high order, while the American Economic Association, embracing nearly all the economists and many of the public men in the United States, issues bimonthly monographs which are now in the fourth volume. Americans have every reason to take a cheerful view of the future of political economy in this country.

When we look back upon the evolution of economic science, we find that the most diverse elements have contributed to the growth of political economy. Philosophy in France, Germany, and England has contributed elements; practical statesmanship in every country has added important elements; shrewd business men of large affairs have been among the prominent economists, and in addition our science claims among its promoters some of the ablest scholars of the past hundred years. Political economy is doubtless still a young science, and as such is incomplete; but surely those who sneer at it as a "mere theory" do but reveal their own ignorance.

Ingram's *History of Political Economy* is the best outline in the English language of the history of our science.

PART VIII.

A FEW SUGGESTIONS FOR STUDY AND COURSES OF READING.

A FEW SUGGESTIONS FOR STUDY AND COURSES OF READING.

Suggestions.—The suggestions for study must be very general, as they must apply to so many readers in so many different situations.

It may be said to all that they should form habits of careful observation, and supplement what they have gathered from this book by inquiry, reading, and reflection. Those who can ought gradually to get together a little working library of economic works, and the books herein mentioned will constitute a very good economic library. Few will be able to buy all, but many can be picked up, one at a time, in a few years. Circles and schools can by co-operative effort secure a larger library than can ordinarily be done by the isolated reader. Of course, when one's means are ample the problem is a very simple one.

Circles and schools should call in the assistance of business and professional men and practical politicians from time to time. When banking is discussed it will not be difficult to find a banker who will be able to explain more fully bank notes, checks, drafts, and bills of exchange, perhaps exhibiting blanks or canceled paper.

Similarly, when taxation is being studied, local tax assessors and tax gatherers should be invited to describe the actual workings of the system in the administration of which they are practically engaged. Let readers examine the different kinds of money in circulation, and not rest content until they understand their difference. Water-works, gas-works, public roads are to be studied, and private compared with public management; and various kinds of farming, farming on a large scale and on a small scale, are worthy of observation, and practical farmers can tell what they know about the merits of different systems.

Courses of Reading.—1. The author begs to mention his own works first, not because they are superior to other works, or even equal to them, but because for those who take an extended course of study there is an undoubted advantage in first mastering one author and then passing on to others. Besides, thoughts which could not be fully elaborated in this work will be found further explained in his other works.

At the same time the author will frankly confess that he wants no one to accept his mere *ipse dixit*, and that he would consider this work a failure if it did not kindle a desire to read the works of other authors. The author has written *Problems of To-day*, *French and German Socialism*, *Labor Movement in America*, *Taxation in American States and Cities*, and if any one should care to read all he would recommend their perusal in the order named. If only one work is read let it be *Problems of To-day;* if two, that and *Taxation in American States and Cities.* If another book is desired as a text-book in school or college as supplementary to this, let it be *Taxation in American States and Cities*, if time is sufficient for so large a work, otherwise *Problems of To-day.* Those who are chiefly interested in labor problems will instead take *Labor Movement in America*, or, if time is short, *French and German Socialism.*

2. If it is desired to pass from this book immediately to those of other authors, the following course is recommended: Kirkup's *Inquiry into Socialism;* E. J. James's *Relation of the Modern Municipality to the Gas Supply*, H. C. Adams's *Relation of the State to Industrial Action*, H. C. Adams's *Public Debts.*

3. Having taken 1 or 2, comparative studies in the following works are recommended: John Stuart Mill's *Principles of Political Economy;* F. A. Walker's *Political Economy* (large edition); J. B. Clark's *Philosophy of Wealth.* Make Mill the basis, read his work and compare his theories with those of Clark and Walker. This might be extended by a comparison of views in Newcomb's *Political Economy.*

4. **Tariff Course.**—R. T. Ely's *Problems of To-day;* R. E. Thompson's *Protection to Home Industry;* F. W. Taussig's *Tariff History of the United States;* Frederick List's *National System of Political Economy;* S. N. Patten's *Premises of Political Economy;* Henry George's *Protection and Free Trade.*

5. **Money.**—F. A. Walker's *Money; or, Money, Trade, and Industry;* Stanley Jevons's *Money and the Mechanism of Exchange;* Laughlin's *History of Bimetallism in the United States;* S. Dana Horton's *The Silver Pound.*

6. **Banking.**—Knox's Report as Comptroller of the Treasury in United States Finance Reports for 1875–76; J. S. Gilbart's *History, Principles, and Practice of Banking;* Walter Bagehot's *Lombard Street.* For law, J. T. Morse's *Banks and Banking.*

7. **Finance.**—H. C. Adams's *Public Debts;* R. T. Ely's *Taxation in American States and Cities;* Cossa's *Taxation, its Principles and Methods;* A. J. Wilson's *The National Budget, the National Debt, Taxes and Rates;* T. H. Farrer's *The State in its Relation to Trade;* Woodrow Wilson's *Congressional Government.*

8. **Socialism.**—Edward Bellamy's *Looking Backward;* R. T. Ely's *French and German Socialism;* Kirkup's *Inquiry into Socialism;* T. Edwin Browne's *Studies in Modern Socialism and the Labor Problem;* Rae's *Contemporary Socialism;* Emil de Laveleye's *Socialism of To-day;* Gronlund's *Co-operative Commonwealth;* Marx's *Capital,* often called the Bible of socialism. For American Socialism see Ely's *Labor Movement in America.*

9. **Anarchism.**—Proudhon's *What is Property?* and other works translated by Benjamin R. Tucker; Prince Krapotkine's articles in the *Nineteenth Century,* February and August, 1887, April and October, 1888; Walker's *Political Economy;* article "Socialism" in *Encyclopædia Britannica;* article "Shall We Muzzle the Anarchists," by H. C. Adams, in *Forum,* vol. i, p. 445, September, 1886.

10. **Rent.**—Henry George's *Progress and Poverty* and

Social Problems; Walker's *Land and its Rent;* J. B. Clark's *Capital and its Earnings.*

Other works needed for a fairly good economic library: Publications of the American Economic Association, complete; *Political Science Quarterly*, complete; *Quarterly Journal of Economics*, complete; *Bradstreet's* current numbers, published in New York; *Banker's Magazine*, published in New York; Walker's *The Wages Question;* Bolles's *Financial History of the United States;* Lalor's *Cyclopædia of Political Science;* Clark and Giddings's *The Modern Distributive Process;* Washington Gladden's *Applied Christianity; Life and Work of the Seventh Earl of Shaftesbury*, by Hodder, unabridged; Helen Campbell's *Prisoners of Poverty; Report of the Industrial Remuneration Conference*, London, 1885; Arnold Toynbee's *Industrial Revolution;* Reports of the State Bureaus of Labor Statistics and of the National Department of Labor.

German Works.—Desirable for those who read German: —Schönberg's *Handbuch der Politischen Oekonomie* 2te Aufl.; the economic treatises of Wagner, Roscher, Cohn, Knies. Magazines: *Jahrbücher für Nationalökonomie und Statistik; Jahrbuch für Gesetzgebung, Verwaltung und Volkswirthschaft* (Schmoller's).

French Works.—Gide's *Principes d'économie politique*, 2e ed.; Baudrillart, *Histoire du luxe;* Leroy-Beaulieu's *Traite de la science des finances;* Emil de Laveleye's economic writings; Charles Périn's economic writings; Sismondi's *Nouveau principes d'économie politique.* Magazines: *Revue d'économie politique;* the *Journal des Economistes* is the organ of the old ultra-conservative school of French economists.

APPENDIX.

I. QUESTIONS AND EXERCISES.
II. BIBLIOGRAPHY.

QUESTIONS AND EXERCISES.

DEFINE the following terms: Sociology; economic life; political economy; the State; freedom of contract; utilities; economic goods; wealth; wants; luxuries; capital; exchange; value; price; demand and supply; cost of production; money; bimetallism; credit; property; interest; capitalization; rent; standard of comfort; margin of cultivation; socialism; anarchism.

What are the departments of social life, and what is the relation of the economic to the other departments?

It has been estimated that the annual production of wealth in the United States is about $10,000,000,000. Examine all the elements which must enter into such an estimate.

What are the physical characteristics of your own locality? How have they influenced its economic life? In what ways do you think they will affect its future economic life? In what ways have the character of the people in your community been shaped by their economic life?

What is meant by serfdom? What is the difference between slavery and serfdom?

Is there justification in the term "wage-slavery." Explain.

Show the importance of studying the economic institutions of a people from the stand-point of their historical development.

What are the different economic stages in the life of a people, viewed from the stand-point of production and of transfers of goods? Describe and give illustrations of each.

Describe the village community.

Explain the essential difference between the economic system of the Middle Ages and that of the present time.

Describe four of the main features of modern economic life which give rise to the present economic problems.

What two kinds of deterioration may there be in the economic condition of the masses?

What are the principal means proposed for uniting labor and capital?

What are the relations of modern economic life to freedom? In what important respect has the nature of restrictive laws been changed? What are the advantages and disadvantages of freedom in industry?

What has been the development of laws with respect to the industry of agriculture? Have restrictions increased or decreased? been made special or general? Illustrate. With respect to the liquor industry? The shipping industry?

What government activities can you name which were formerly, in this or other countries, ancient or modern, delegated to individuals or private companies, and what have been the reasons which led to the adoption of the present system?

State and criticise the contract theory of government.

What are the principal reasons why government should own and manage forests?

Show how political economy is simpler than private economy.

Show the difference between private and public interests.

Why must we have an ethical ideal in our studies in political economy?

Describe the three classes of definitions of political economy; show their historical development, and give examples of each.

Into what main parts may political economy be divided?

What are the different methods of economic research? Describe each. Which are most important? What is the origin and character of the historical school?

What is usually meant by the term "natural law?"

Examine the following: "The practical or unscientific economist is one who, finding the river to wind about in all directions, denies or ignores any special tendency in its waters to approach the sea, and regards the idea of those waters being urged forward by any one single force, like that of gravitation, as entirely illusory."—*Newcomb.*

What claim has political economy to the name of science?

To what other sciences is political economy closely related, and in what way?

What place does economic science occupy with regard to the laws of the physical universe?

Give illustrations of the influence of the religious life upon the economic life of a people. Show some economic causes and results in religious reformations; for example, those of Luther, Wiclif and the Lollards, Mohammed, and others.

What are the principal economic teachings of Moses? of Isaiah? of Jesus? Show the growth of economic civilization among the Jews as exemplified by their teachings.

Does religion become more or less important with the growth of industrial civilization? Show how this is. Give historic proofs. Proofs from your own observation.

Can you mention any subjects belonging to the field of political economy which are not also within the proper domain of legislation?

What are economic goods? What is wealth?

What is the relation between production and consumption as divisions of political economy?

What are the causes for apparent overproduction?

Examine and criticise the following: "Generally, and with one single exception, that of food, there may be an excess of products; and universally, or inclusive of food and of all things else, there may be an excess of productive effort."—*Chalmers.*

What are the three motives of economic activity, and how do they supplement one another? Among what peoples is self-interest the only economic motive?

What are the effects of luxurious expenditures upon the rich? on the working class?

When is expenditure in luxuries justifiable? What is the difference between saving and hoarding?

Show fallacies in the statement that expenditures for liquors furnish a market for the farmer's produce.

What are the different factors in production? Give examples of industries where the different factors are represented by different persons.

Which of the four factors in production is most benefited by the extension of machinery and division of labor?

What is meant by land? What services does it render to production? What is the difference between rent and profits? Rent and interest?

What are the checks on population among savages? Among civilized people?

How does capital arise? What defense has the capitalist for receiving interest? Is credit capital? Is money capital? Distinguish between economic goods and capital.

Are the following things capital—social or individual: City lots, farms, good eyesight, a dwelling house, an actor's diamonds, a theater, bread and butter, railroad stock, promissory notes, Fortress Monroe, the White House, Lake Erie, custom house, church taxes, lottery ticket. United States greenbacks, "good-will" of a business?

Define fixed and circulating capital. To which class do the following belong: Calico on the shelves of the merchant, a pick-ax, cash, steamboat, horse, iron ore?

Describe the functions of the *entrepreneur.* Show his relations to the principle of division of labor.

What are the advantages of division of labor? Disadvantages? Why can not the division of labor be carried out so well in agriculture as in manufactures?

What means can you suggest to lessen the evils of an extreme division of labor?

Show the way in which increasing division of labor increases the importance of natural monopolies in the economic life of a people.

How does the increasing division of labor affect the growth of cities? What is the function of cities with regard to the mutual dependence of man upon man?

Show how increased division of labor has made female and child labor important problems.

What is the relation between utility and value?

"Iron is more useful, but less valuable, than gold." Point out the fallacy and show its bearing upon the theory of value.

Under what conditions does value depend upon cost of production, and how is this dependence brought about?

Determine as nearly as you can what proportion of the industrial field is subject to monopoly, and therefore outside the limits of competition.

Explain the following: "High or low wages or profit are the causes of high or low prices; high or low rent is the effect of it. It is because high or low wages or profit must be paid in order to bring a particular commodity to market that its price is high or low. But it is because its price is high or low, a great deal more, or very little more, or no more, than what is sufficient to pay these wages and profit, that it affords a high rent or low rent, or no rent at all."—*Adam Smith.*

"General low wages do not cause low prices, nor high wages high prices." Explain.

The State of New York prohibits its penitentiary convicts from working. Does this increase the opportunities or remuneration for labor throughout the State?

What is meant by the expression "fair price?"

Name and describe the three conceptions of money.

What functions are performed by money?

Does the value of money depend upon the cost of production or upon supply and demand?

What were the ideas of the Mercantilists with regard to money?

Does the value of money vary inversely as its quantity?

What are the qualities of gold and silver which make them pre-eminently fit for money? Which quality is the most important? What articles have been used for money? When is it a disadvantage to a country to import gold?

State all the effects which follow in a country from an increase or decrease in the quantity of money.

What effects would follow if the gold in the United States were doubled: on bondholders? on importers? on bankers? on farmers? on wage-earners?

Is the statement, "Bad money drives out the good," true to the facts? If not, state it better.

What are the conditions to be observed in fixing the amount of money which a country should have in circulation?

What effects would follow if the national greenbacks were withdrawn from circulation?

Examine the following: "The influx of money into a progressive country is one of the most powerful promoters and increasers of production. To money (as to labor) 'time is money.' Whoever possesses it must seek an investment for it or lose his profits. When it is plenty all sorts of productive work are stimulated; labor is the master of capital, and industrial enterprise gains a more than proportionally larger return for its outlay, with every increase of the outlay. Labor becomes more productive as the instrument of association is more universally accessible. Its price rises while that of commodities falls."—*Thompson.*

Give different definitions of credit. What are the elements of a credit transaction? Name and describe the different instruments of credit.

What are the advantages of credit? Disadvantages?

What is the economic value of an extension of credit?

What are the different motives which have led nations to regulate international commerce?

During the years 1860–73 the imports of the United States exceeded the exports, and from 1873 to 1883 the exports exceeded the imports. What inferences are possible with regard to the two periods?

"We want a larger foreign commerce in order to afford a vent for our surplus produce." Criticise this statement.

What are the reasons for the apparent credibility of the balance of trade theory? Why do bankers look with more distrust upon shipments of gold to Europe than upon larger shipments to distant parts of our own country?

Examine and criticise the following: "The ordinary means to increase our wealth and treasure [gold and silver] is by foreign trade; wherein we must observe this rule: to sell more to strangers yearly than we consume of theirs in value. For suppose that when this kingdom is plentifully served with the cloth, lead, tin, iron, fish, and other native commodities, we do yearly export the surplus to foreign countries in the value of twenty-two hundred thousand pounds, by which means we are enabled beyond the seas to buy and bring in foreign wares for our use and consumption to the value of twenty hundred thousand pounds. By this order duly kept in our trading we may rest assured that the kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in so much treasure [gold and silver], because that part of our stock which is not returned to us in wares must necessarily be brought home in treasure."—*Thomas Mun*, 1640.

Examine and criticise the following quotation from Adam Smith, *Wealth of Nations*, Book II, chap. v: "The capital which is employed in purchasing in one part of the country, in order to sell in another the produce of the industry of that country, generally replaces, by every such operation,

two distinct capitals, that had both been employed in the agriculture or manufactures of that country, and thereby enables them to continue that employment. . . . When both are the produce of domestic industry, it necessarily replaces, by every such operation, two distinct capitals, which had both been employed in supporting productive labor, and thereby enables them to continue that support. . . . The capital employed in purchasing foreign goods for home consumption, when this purchase is made with the produce of domestic industry, replaces, too, by every such operation, two distinct capitals; but one of them only is employed in supporting domestic industry. . . . Though the returns, therefore, of the foreign trade of consumption should be as quick as those of the home trade, the capital employed in it will give but one half of the encouragement to the industry or productive labor of the country. . . . But the returns of the foreign trade of consumption are very seldom so quick as those of the home trade. The returns of the home trade generally come in before the end of the year, and sometimes three or four times in the year. The returns of the foreign trade of consumption seldom come in before the end of the year, and sometimes not till after two or three years. A capital, therefore, employed in the home trade will sometimes make twelve operations, or be sent out and returned twelve times before a capital employed in the foreign trade of consumption has made one. If the capitals are equal, therefore, the one will give four-and-twenty times more encouragement and support to the industry of the country than the other."

State the advantages to a country of foreign commerce.

Examine the following, which has been offered as an argument for protection: "After 1860 the business of the country was encouraged and developed by a protective tariff. At the end of twenty years the total property of the United States as returned by the census of 1880 amounted to the enormous aggregate of $44,000,000,000. Thirty thousand millions of dollars had been added during these twenty years to the permanent wealth of the nation."

Define property. What is the meaning of the definition, "jus utendi vel abutendi re." What limitation is there always to the right of property? What two elements enter into property?

Show the growth of the right of private property through the successive economic stages.

What elements enter into interest? What determines the rate of interest?

"The increase of stock [capital], which raises wages, tends to lower profit."—*Adam Smith.* Is this correct?

Explain the difference between capital and capitalization.

What influence upon the selling price of bonds and land has a fall in the rate of interest? A rise in the rate of interest?

On what does the rate of interest depend? Why is interest higher in Chicago than New York?

If prices are high will interest be high? If the money in the United States were doubled would the rate of interest rise?

"That interest does not depend upon the productiveness of labor and capital is proved by the general fact that where labor and capital are most productive interest is lowest. That it does not depend reversely upon wages (or the cost of labor), lowering as wages rise and increasing as wages fall, is proved by the general fact that interest is high when and where wages are high, and low when and where wages are low." Is this true?

Does a fall in the rate of interest mean that the total interest paid has decreased either absolutely or relatively to the total amount produced?

Does the tendency of profits to a minimum depend on a general fall in prices? If so, why? If not, why not?

Ricardo's law of industrial progress: "In an advancing community rent must rise, profits fall, and wages remain about the same." Explain this.

"Interest and wages depend on the margin of cultivation, falling as it falls and rising as it rises." Explain this.

What does Ricardo mean by saying that the niggardliness of nature is the cause of rent? Is this statement perfectly accurate?

Define rent. What is the difference between rent and interest?

Would the land of a country pay rent if it were all of uniform fertility?

What has been the effect of railroad-building upon rents in the United States?

Does increase in rent cause increase in the price of food?

"No reduction would take place in price of corn although landlords forego the whole of their rent."

"Rent does not enter at all into the cost of production." Explain.

"High wages or profits do not make general high prices. They affect prices only inasmuch as different articles have, as elements of their cost, wages and profits in different proportions." Explain.

Wages of bakers in New York average seven dollars per week; in Chicago, twelve dollars a week; of carpenters in New York, fourteen dollars a week; in Chicago, sixteen dollars a week. Explain any causes of these differences with which you may be familiar.

Distinguish between rate of wages and price of labor.

Define the "standard of life." Of what importance is it as an economic principle? In what ways does a high or low price of food affect the general rate of wages?

To what kinds of work is piece-work adapted? What are the advantages and disadvantages of piece-work?

Wages of women are not commonly equal to those of men for the same work performed. Why is this so? Is it "fair?"

Why should the economist discuss public education?

Examine the probable effects upon the production and distribution of wealth of universal education.

"Can every child by education become a great man or woman?"

What can we hope, from our stand-point, for the ordinary man or woman?

What are the differences in organization between trades-unions and Knights of Labor, and how have they influenced each other?

What are the different kinds of co-operation? What are the advantages of productive co-operation?

What are the four characteristic features of socialism? How does socialism differ from anarchism?

What is meant by profit-sharing? Capital-sharing? Co-operation? Socialism?

What are the characteristics of natural monoplies?

It is sometimes said that State management of natural monopolies is socialistic. Examine and criticise this statement.

Examine and criticise the following: "There is no more reason why the government should operate the telegraph than run the flour mills—less, in fact, for every-body uses flour, while it is doubtful if even three per cent. of the people use the telegraph."

What conditions justify the State in engaging in industrial enterprises?

What four advantages are claimed from public ownership and management of natural monopolies?

In what ways will the following different kinds of expenditure of income affect the wealth of the United States, and the working classes: Purchase of United States bonds; employment of American servants; traveling abroad; purchase of American pictures; production of manufactured goods?

Criticise the following statement: "Blessed is the country where the rich are extravagant and the poor are economical."

Examine the following: There is a "beautiful compensation, by which the excessive love of present enjoyment on the part of spendthrifts, when carried to the length of abridging their capital, does, by its effect on supply and price, call forth a counter-active force in the opposite direction —by inviting others, in whom the love of gain predominates, the more to extend their operations, whether in trade or husbandry."—*Chalmers.*

How does the consumption of luxuries retard the industrial progress of a community?

What is public finance?

How can methods of taxation be improved?

What is the justification of taxation?

Show how society takes part in production in your community.

Examine carefully and criticise the following: "Daily purchases of United States Government bonds were commenced on the 23d of April, 1888. By this plan bonds of the government not yet due have been pur-

chased . . . amounting to $94,700,400, the premium paid thereon amounting to $17,508,613 08. The premium added to the principal of these bonds represents an investment yielding about two per cent. interest for the time they still had to run; and the saving to the government represented by the difference between the amount of interest at two per cent. upon the sum paid for principal and premium, and what it would have paid for interest at the rate specified in the bonds if they had run to their maturity, is about $27,165,000. At first sight this would seem to be a profitable and sensible transaction on the part of the government. But. . . the surplus thus expended for the purchase of bonds was money drawn from the people in excess of any actual need of the government, and was so expended rather than allow it to lie idle in the treasury. If this surplus under the operations of just and equitable laws had been left in the hands of the people it would have been worth in their business at least six per cent. per annum. Deducting from the amount of interest upon the principal and premium of these bonds for the time they had to run at the rate of six per cent. the saving of two per cent. made for the people by the purchase of such bonds, the loss will appear to be $55,760,000."

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